

Gas Contract Options Appraisal

for

London Borough of Southwark



Submission Prepared by
Gas Advisory Services Limited

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Gas Advisory Services Limited
Phoenix House
Slade Green Road
Erith
Kent
DA8 2HU

Telephone 01322 331312
Fax 01322 333879

E-mail: gas@gasltd.co.uk

Web-page: www.gasltd.co.uk



“continuous improvement, measurable gain”

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1.0 INTRODUCTION

In August 2013, Gas Advisory Services Ltd (GAS) were commissioned to undertake a review of the services attributed to the 10 contracts shown in the table in section 2.0 below providing Potable Water Testing & Treatment, Individual Heating & Gas Safety Inspections and District Heating, Laundries and Sewage Plant and recommend a service delivery approach for the new contracts which will meet the council's needs for improved services and value for money and subsequently provide consultancy for procurement support as follows:

- Development of a tailored procurement solution that will deliver flexibility and offer best value to the end user;
- Support with the procurement of multiple supplier contracts that is compliant with EU/UK Public Contract Regulations and current industry best practice;
- Assist in managing of procurement process and preparation of preliminaries, technical specification and schedule of rates;
- Creation of a robust two stage [Quality /Cost] scoring evaluation mechanism that is capable of appointing preferred suppliers to deliver a best fit combination of service provision and value for money;
- Assist in mobilisation of the contracts;
- Provide benchmarking against other similar organisations.

The objective of this report is to clearly define the benefits of the current 3* Star PPP all inclusive contract arrangements in place and explore those being offered by other contractual variants in the public services market place that will ultimately achieve the following:

- A detailed understanding of the scope and requirements that will form part of the contracts in terms of key deliverables, likely values and decision making processes.
- A project plan highlighting resources, timescales for key deliverables and associated roles and responsibilities.
- Guidance regarding different options and procurement strategies, assess impacts of sustainability (Environmental and Social) which assists and supports the award process, considering capability, innovation, price, etc.
- Assist with the contract set-up, discounting, approval mechanism, duration, renewal alignment and collaboration with policies performance, measurement and reward.
- Provide input from the supplier market and best practice from other similar clients/contract administration.

2.0 BACKGROUND INFORMATION

In order to assist the above objectives all stakeholders within Engineering and Compliance for the London Borough of Southwark (LBS), met on a number of occasions to map out and agree their particular options for consideration with (GAS) acting as co-ordinator.

The existing contracts, as detailed in the table below, are a planned preventative maintenance (PPM), schedule of rates (SOR) measured term contracts (MTC) and are due to expire on 30 September 2015. These were examined and discussed in detail noting the bespoke requirements of each to ensure that there are appropriate servicing and maintenance regimes in place.

CONTRACT PACKAGES BY SERVICE & AREA	EXISTING TERM CONTRACTOR
Portable Water Testing & Treatment	
Borough & Bankside, Bermondsey & Leathermarket, Rotherhithe, Walworth	T Brown Group Ltd
Peckham, Nunhead & Peckham, Camberwell, Dulwich	T Brown Group Ltd
Individual Heating and Gas Safety Inspections	
Borough & Bankside, Bermondsey	T Brown Group Ltd
Peckham, Nunhead & Peckham	T Brown Group Ltd
District Heating, Laundries and Sewage Plant	
Borough & Bankside, Bermondsey	T Brown Group Ltd
Peckham, Nunhead & Peckham	T Brown Group Ltd
Individual Heating and Gas Safety Inspections	
Rotherhithe, Walworth	OCO Ltd
Camberwell, Dulwich	OCO Ltd
District Heating, Laundries and Sewage Plant	
Rotherhithe, Walworth	OCO Ltd
Camberwell, Dulwich	OCO Ltd

In December 2011 a Gateway 3 was approved whereby the existing four contracts for Individual Heating and Gas Safety Inspections were varied to include a Price Per Property (PPP) payment mechanism. These four contracts are currently providing costs savings of **£1.5m per annum** with associated improvements to service delivery, reduced bureaucracy and improving “right first time”. Options were examined to bring these benefits to the other 6 contracts as appropriate.

The successful negotiations, which took place in 2011, between the term contractors, GAS and LBS are contained in Appendix 1.

The management of the existing 3* Star PPP all inclusive contract was discussed in detail particularly in relation to its overall service provision in both cost and quality as benchmarked against similar organisations, supported by existing procedures/arrangements that have been adopted to fulfil the Landlords current legal/essential and desirable responsibilities under the Gas Safety (Installation and Use) Regulations 1998 (GSIUR 1998).

Early discussions between all stakeholders supported the existing contract type, albeit additional work streams, processes and procedures, together with contractual operational requirements were considered necessary to enhance the service delivery and challenge the status quo against existing market trends and performance.

The following were also noted positively:

- 2.1 Implementation of the 3* Star PPP contract dated April 1 2012, supported by GAS findings, including feedback received from LBS staff have concluded that the clients expectations for a considerably improved value for money service, offering continuous improvement has been met.
- 2.2 Client expectations regarding the efficient and effective administration of the contract are also being experienced given the reduced bureaucracy of the previous contract and its associated paper trails for invoicing etc.
- 2.3 Existing contractor concerns regarding the change of contract conditions mid-way through their respective contractual agreements have been minimal with positive feedback being recorded by ourselves through continuous collaboration/communications with all stakeholders.
- 2.4 Annual savings of approximately **£1.5m** have been made with minimal use of the agreed financial risk pot as requested by the contractors.

It was therefore concluded by GAS at this early stage that where possible PPP contracts should be explored to cover the remaining six contracts in order to provide best value for the client and their residents/Leaseholders.

3.0 CONTRACTUAL OPTIONS

3.1 Existing 3*Star contract (PPP) (Domestic)

The existing four Individual Heating and Gas Safety Inspection contracts are operating satisfactorily with tangible cost savings over the original SOR with reported savings of **£1.5m per annum**. PPP provides a fixed cost for both planned servicing and repairs of domestic property assets namely Central heating boilers and their associated radiators/controls etc. This provides a fixed cost regardless of the number of repairs and visits a contractor has to make. This promotes right first time as repeated visits would be at a cost to the contractor.

Within these contracts planned asset replacements will not be included together with some exclusions e.g. tenant damage no gas/electric. etc.

The above contract is usually supported by JCT Measured Term contractual requirements.

Since the introduction of the 3* Star PPP contracts, LBS service delivery expectations have increased along with the need to gain improved efficiencies and value for money across all contracts.

Given consideration to the above GAS initial observations have concluded that the PPP type of contracts could be successfully administered for some of the remaining 6 existing contracts and additional work streams as detailed below, which GAS believe will provide a seamless approach to resident services and provide cost efficiencies given the inclusivity and additional contract values to individual tenderers.

These additions can be adopted within the new contract specification and offer minimal risk if administered/audited comprehensively, albeit where necessary a supporting short list of schedule of rates can be used to give cost breakdowns and be used for high risk/expensive assets.

Work streams include:

Corporate facility management (**Back-up arrangement only**)

Primary Mains

Communal water tanks

Booster sets

BEMS

Gas detections equipment

Dry risers

Electrical plant

Sewage

Additional specialised services

3.2 4* Star Contract

The 4* contract is a notional term and is not widely recognised by name as normally embodied within the clauses of the well-known 3* star PPP all inclusive contract terms and conditions.

The above contains additional responsibilities for the contractor of which can be clearly specified within the contract documentation, i.e. tenant damage, all callouts regardless of nature of which can include other specified contractor liabilities/risk in relation to the clients assets with the option of no exclusions as stated within a 3* Star PPP contract previously.

GAS believe this can add considerable unknown costs to the contract as risk is increased and passed onto the contractors in particular volume of repair calls of which can include resident damage and non related nuisance calls etc.

The above contract is usually supported by JCT Measured Term contractual requirements.

3.3 5* Star Contract

All inclusive to the 4* Star contract, albeit agreed boiler replacements are added to contractual arrangements of which are usually made up by three categories:

A = Servicing B= Breakdown C= Reactive installs. These contracts are not widely used and effectively allow the contractor to decide and manage new “just in time” boiler replacements of which should reduce delays in ordering / authorisation of works.

The contractor has full control on reactive replacements and agreed contractual budget identified in the contractors tender referring to item C whereby the client identifies historical replacement figures and the contractor itemises their cost per asset with a total figure thereby giving the budgetary amount per annum.

The reported public sector negative is of a decreased client control on financial spend, as contractor dictates when and why replacements are undertaken.

This contract will of course attract a higher price in comparison with the 3* and 4* proposals.

Operational feedback from other similar organisations has been mixed given the fact that control on spend and dictation of asset replacement to some should remain a client activity/responsibility.

GAS believes that these contracts can work effectively, but normally client resources are exchanged from approving works to auditing that the contractor is duly spending the budget in accordance with the financial terms of the contract and the appropriateness towards replacement of existing assets.

Therefore GAS have reservations with this contract as the contractors can be prone to spend financial budgets expediently with added risk and loss of control for the client.

The above contract is usually supported by JCT Measured Term contract requirements.

- Note: Planned programme remains with client.

3.4 Open Book

GAS understanding of this contract arrangement applies only to individually agreed schedules of which when combined and divided by total property numbers equal an all inclusive price per property PPP for individual heating systems.

Upon further analysis and market research, additional preliminary sums are added, therefore this can increase the all - inclusive price per property PPP by an additional 35% making this option financially disadvantageous for the client.

Feedback has also indicated levels of transparency can be questionable with agreement on certain schedules being difficult to achieve /understand for best value.

3.5 Forms of Contract

A number of forms of contract were considered by GAS namely JCT, Open Book together with Bespoke/Term Partnering Contract. However GAS can record that the 10 existing ECON contracts that were provided have been duly analysed and the following deduced:

- Existing contract offers a prescriptive approach with clear definition of requirements, albeit large in nature of content and therefore requires redefinition
- No existing default mechanism
- KPI's are included
- Time scales on delivery of individual works clearly defined

- Technical scope clearly defined and itemised
- Health and safety guidance and procedures included
- Tenants charter listed

Therefore the existing contract has good description of works/service delivery, albeit will require updating for both technical and service related improvements to include additional work streams and newly appointed key performance indicators.

Given the existing contractual arrangements and the content therein this option should equate to a good organisational fit with minimal risk for success.

LBS have confirmed that a JCT Measured Term Contract will be selected for use with the councils standard amendments that are in line with other Maintenance & Compliance Contracts. This will provide consistency and better contract management processes.

4.0 OPERATIONAL CONTRACTUAL OPTIONS / REQUIREMENTS

Following the clients chosen option, operational requirements will need to be agreed.

4.1 Domestic Heating

In relation to the domestic contract we would envisage that this will have inclusivity in line with the benefits being experienced presently including associated detailed key performance indicators and service level requirements.

4.2 District Heating

The existing District Heating contract specification in place has remained unchanged since its award and will require updating to ensure it remains contractually fit for purpose.

4.2.1 PPM Boiler Plant Rooms

This area of the contract specification must be site specific not general in order to obtain best planned servicing and price from the contractor. Whilst writing this report GAS are aware that the client is compiling detailed asset information which will provide interested tenderers comprehensive data in order to accurately price and comply with detailed service and maintenance specifications, in line with both Health and safety and client technical requirements.

PPP for District Heating Properties

After analysing the benefits of the PPP for the domestic contracts GAS would recommend further investigation into the possible benefits of a PPP contract for the district heating properties . However, Leasehold consultation will have to be specific and provide evidence that this would reduce costs.

GAS recommends adding other services to increase cost efficiency and lower administration by compiling comprehensive asset registers of equipment contained in the other services, similar to those being compiled above.

4.2.2 Schedule of Rates

Existing schedules will require updating to a newly listed asset register which will assist clarity and measurement and increase value for money.

SORs will be +/- highlighting indicative costs with uplift percentages clearly identified in the contract regarding specialist services/bespoke parts etc., once again aiding future best value expectations.

4.2.3 North / South Contract Split

Existing contract is currently managed area by area. North/South split is recommended and supported by the Savills's report in 2009. However it should be noted that there will be a slight in balance between the contracts due to the density of properties and assets in the North.

4.2.4 Contractor/s

A single contractor approach could be considered, however recent benchmarking of other organisations identify that this does not represent best practice with a recorded low satisfaction rate.

Having a single contractor creates a high level of risk for the client should health and safety / performance levels not be achieved whereas two contractors gives a level of backup from contractors already fully aware of the organisations service delivery contractual requirements.

4.2.5 Additional Work Streams

Additional work streams as described in section 3.1 have been discussed and agreed for inclusion within the new contract document in order to add best value and consistency of service to residents. The addition of these services will also reduce internal administration and provide a synergy throughout agreed work streams and service requirements in line with those already experienced within the administration of domestic individual heated properties 3* Star PPP.

5.0 PLANNED / REACTIVE DOMESTIC BOILER REPLACEMENTS

GAS recommends an agreed level of reactive/ planned boiler and heating system replacements of 7% to support a 15 year life span of existing domestic assets.

At present GAS would expect up to 20% reduction in boiler prices in the current competitive market compared to the existing contract rates.

Based on previous information supplied by LBS regarding the current annual spend on new boilers we would estimate that a saving of £800,000 could be saved per annum and or 450 additional energy efficient (A rated) new boilers be installed across the borough at no extra cost.

This would provide a significant improvement on service delivery, resident comfort and reduce CO2 emissions.

5.1 Planned / Reactive District Heating Replacements

There is a mixed tenure of plant age within the district heating with some assets at 40+ years.

GAS, would recommend an agreed level of planned district heating replacement of 4% to support a 25 year life span.

A reduction in servicing, maintenance and energy costs can be expected as the district heating is replaced with modern energy efficient low maintenance equipment.

6.0 BENCH MARKED 3* Star PPP CONTRACT PRICES

The table below identifies a number of gas service and maintenance contracts that have been procured in accordance with EU procurement legislation. Each contract has slight variants taking into account bespoke requirements of the individual clients regarding quality and cost on service level provisions.

The list concludes by offering a factual average 3* Star PPP contract cost of £1111.00 (per domestic property) across a number of clients. The variation on prices range given the location and complexity of the works required, together with individual KPI standards requested by clients, and the service needs of their residents.

It must be noted that costs may vary given that the new contracts will not be awarded until June 2015 and BMI increases will apply to these contracts.

CLIENT	CONTRACT TYPE	ESTIMATED PROPERTY NOs	QUALITY / PRICE	COMBINED 3* PRICE
L & Q	3*Star	60,000	40 / 60	£110.00
The Hyde Group	3*Star	25,000	60 / 40	£114.00
Affinity Sutton	3*Star	40,000	60 / 40	£117.00
Family Mosaic	3*Star	22,000	60 / 40	£104.00

6.1 Proposed Benefits

The proposed benefits from this procurement process will deliver to both the client and their residents a better value for money service which demonstrates tangible continuous improvement in operational varying work streams.

This proposal and subsequent form of contract will assist the client to be more efficient and effective on the administration of the contract by reducing bureaucracy of the existing contract and its associated paper trails for invoicing etc.

6.2 Proposed Savings

GAS, believe after examining the current market that fixed price 3* contracts will provide the following financial benefits:

- Existing 3* price per property £148.00
- Estimated 3* contract price per property £111.00
- Estimated saving per property of £ 37.00

Given the above an estimated annual saving would be as follows:
Individual Heated properties 23,500 X £37.00 = £869,500 annual saving.

In addition GAS would estimate that **£800,000 annual saving** could be achieved on new boiler installs.

The above savings have been calculated on a budgetary requirement of £4m per annum for replacement of the existing ageing stock which equates to 7% per annum or approximately 1800 new boilers, giving a lifecycle for each of 15 years approximately.

Assuming that an existing typical new boiler installation is £2,250 per property and expected new rates for these works could be in the region of £1,800 a £450 per property surplus is assumed, providing the saving as identified above of approximately £800K.

Added to the above given the comprehensive detailing of existing assets that will be available to the tenderers and current market trends a minimum 10% saving can be experienced by LBS with regards to the additional work streams therefore saving a further estimated £370,000 on the current contractual spend of £3.7m.

In addition to the above GAS requested an annual list of all repair orders raised for district heated properties from September 2012 August 2013.

Analysis of the information gathered from LBS district heating repairs has concluded the following items needed to be removed from the main list to reflect an accurate repairs only list to district individually heated properties.

The following were therefore removed:

- Gas servicing visits,
- Cylinders
- Voids
- Reconnections
- Central heating installations
- Stop cocks
- Cold water tanks
- Domestic gas servicing

Following the above over 20,000 job records were identified as correctly apportioned to individual district heating property repairs across September 2012 August 2013.

Subsequently these repairs were combined to gain a grand total cost which was divided by the amount of district heated properties which equates to an average price per property of £75.25 excluding any annual gas servicing.

E.g. total value of job records £1,279,216.68 / 17,000 properties = £75.25

Given the above we would expect to see the following financial savings on a PPP contract for individual district heating properties

- Existing SOR list average cost per property £75.25
- Estimated PPP district £50.00
- Estimated saving per property of £25.25

Given the above an estimated annual saving would be as follows:

Individual heated district properties 17,000 X £25.25 = £429,250 annual saving.

Therefore an estimated total of over £2.4m annual saving is achievable on the renewal of this contract.

6.3 60/40 Quality/Price Evaluation

Due to the varied work streams and associated health and safety responsibilities it is of paramount importance that the successful contractor/s have the correct internal policies/procedures and working methodology to operationally service these contracts.

Although price is always of utmost importance within the public sector the legislative and landlord responsibilities within these work streams demands a no compromise approach to compliance and therefore we strongly recommend that a 60% Quality 40% Price mechanism is actively considered for this particular contract.

This will enable LBS to award the contract to the tenderer/s who can demonstrate historic and present day strict compliance to individual landlord areas of risk in addition having robust policies and operational working procedures with a strong approach to the supervision of same of which can be clearly evidenced.

GAS has experience that this will help to counter suicide bids from contractors who do not have the operational skill sets and experience required for a contract of this technical nature. This will also send a clear message to the market that LBS expect a quality service.

GAS can confirm that numerous registered providers have adopted this approach putting quality before price as an enabler for "Best Value" some even going as far as 70% quality and 30% price in order to select companies that can provide both client technical and service expectations with good levels of internal supervision with a tangible focus towards continuous improvements.

The risk to LBS of having to pay more for these services is mitigated by the fact that the current market is extremely competitive. Given the value of this contract, the market is expected to price tenders very keenly so even with the emphasis on quality, GAS still expects that these services will achieve value for money.

7.0 CONCLUSIONS

In summary the existing contracts for Individual Heating and Gas Safety Inspections in its current form as a 3*star PPP all inclusive contract is the most appropriate once the changes have been made to both operational and technical detail in accordance with section 4 of this report.

In support of the above GAS would comment that the current 4 Individual Heating and Gas Inspection contracts were reviewed and amended early 2012 and feedback has been positive of its overall value both in service delivery and in particular financial gains.

Existing LBS resource levels also compliment this model and lower the operational/financial risk of other contracts namely 4/5 star and open book of which delegate responsibility moreover financial to the successful contractor of which in our opinion adds resource levels in other areas for the client with additional hidden costs.

With regards to the district heating properties and plant/rooms these will need to be updated to provide a clear and comprehensive asset register (currently being administered) in order to enhance best value in this area of the works together with the implementation of items as described in section 4.

District heating as supplied to individual properties will also benefit from a 3* star all inclusive PPP arrangement whereby fixed costs will minimise the financial risks to LBS and bring added cost benefits.

District Heating assets/plant rooms and their ancillary controls contained within will require a PPM planned preventative maintenance fixed cost regime, together with a modern suite of schedule of rates, of which will provide the technical clarity and appropriate descriptions in order to assist the operational administration of the contract once let.

Please note:

As an alternative the tender process should allow tenderers to offer an alternative bid for the recommended 3* star PPP arrangement for district heated dwellings as well as providing a percentage adjustment to a new suite of pre priced schedule of rates.

Additional work streams as highlighted within this report will fall into either category namely:

- PPP or Price Per Block for items such as dry risers and cold water storage tanks.
- PPM with Specific schedule of rates that have been duly analysed and modernised to provide the best value possible given their specialism and technical complexities.

It is therefore without hesitation that GAS would offer the following recommendations to the client in order that a “Best value” approach maybe experienced by the Council without any service delivery areas of concern being experienced in the future by both the Council’s employees and their Residents/Leaseholders.

8.0 RECOMMENDATIONS

Given the complexity and work streams involved in this contract procurement we would strongly advise that the client pursue a combination of the contractual information available. In particular existing benefits of a 3*star all inclusive PPP contract for both domestic and district heating properties, planned preventative fixed cost maintenance regimes for district heating boiler house/plant rooms, together with a modern suite of SOR's associated with KPI and contractual arrangements which include cost certainty and high resident satisfaction.

The following is recommended by GAS.

1. Agree forms of contract with LBS legal department.
2. New improved PPM site specific schedules for district plant
3. Agree PPP appropriateness for district heating after cost modelling exercise. New improved SOR for all district heating properties. As an alternative the tender process should allow tenderers to offer an alternative bid for a PPP arrangement for district heated dwellings so that LBS can explore this model subject to the necessary consultation and agreement with all stakeholders..
4. PPP for individual heated properties inclusive of annual gas safety inspections.
5. New improved SOR for additional work streams including a price per block for cold water storage tanks and dry risers..
6. Two contracts split north and south in accordance with the Savill's report and other maintenance and compliance contracts e.g. Repairs and Maintenance.
7. 60/ 40 Quality/Price evaluation method with minimum scoring thresholds on compliance questions.
8. Updated KPI's to match top quartile performance of other social housing organisations.

Please note:

Underpinning all options and for the success of the contract there must be an agreed set of key performance indicators, together with in-house/ independent desktop and onsite contract administration of the key work streams e.g. service, repair, installs, voids, etc, on both planned and investment activities.

APPENDICES

Appendix 1

GAS offered the following recommendations to the client in order that a “Best value” approach maybe experienced by the Council without any service delivery areas of concern being experienced in the future by both the Council’s employees and their residents.

Recommendations / Actions Required

	<u>Action</u>
1. Agree 3* contract fixed price	(agreed on 02/11/11)
2. Agree additional priced work activities for inclusion and/or as standalone schedule of rates	(agreed on 02/11/11)
3. Discuss and agree terms of engagement of the notional “Risk Pot”	(agreed on 02/11/11)
4. Agree all exclusions and inclusions as tabled by GAS (Previous report December 2011 refers)	(agreed on 02/11/11)
5. Meetings with Vangent to discuss existing processes (tba)	(agreed on 02/11/11)
6. Agree ownership of service programme by individual Contractors	(agreed on 02/11/11)
7. Agree new boiler and central heating replacement fund, together with trigger points on replacement	(agreed on 02/11/11)
8. Agree all works related to Decent Homes projects is taken from Risk Pot and/or original installers are instructed to undertake remedial works	(agreed on 02/11/11)
9. Agree timeline for introduction making consideration for new contractor engineering pay structure	(agreed 07/12/11) (start April 2012)
10. Consider and agree mobilisation plan to include the administration of same to ensure compliance with all agreed objectives.	(agreed with GAS)