

Item No.	Classification: Open	Date: 11 September 2013	Meeting Name: Strategic Director of Finance and Corporate Services
Report title:		GW3 Contract Extension Approval to ECON Contracts	
Ward(s) or groups affected:		All wards	
From		Strategic Director of Housing and Community Services	

RECOMMENDATION

1. That the strategic director for finance and corporate services approve the contract extensions to ten (10) Engineering Contracts covering Repair and Maintenance of Potable Water Testing & Treatment, Individual Heating & Gas Safety Inspections and District Heating, Laundries and Sewage Plant to T Brown Group Ltd and OCO Ltd (as detailed in the table in paragraph 6) for a period of 24 months from 1 October 2013 at a total combined estimated value of £21.286m.

BACKGROUND INFORMATION

2. The ten (10) contracts, as detailed in paragraph 6 below, commenced on 1 October 2008 for a period of 5 years with the option to extend for a further 2 years in 12-month increments.
3. As described in the Gateway 2 report approved on 24 June 2008, it was agreed that the two (2) Potable Water Testing & Treatment contracts could be provided by a single contractor but that the other eight (8) contracts should be provided by a minimum of two (2) contractors so that back up arrangements could be put in place. These awards by district are described in the table in paragraph 6.
4. The current arrangements have delivered the progressive improvements to the service and are providing good value to the council and high levels of resident satisfaction.
5. The ten (10) contracts cover three different service areas as set out in the table below:

Service Areas	Value Per Annum
Potable Water Testing & Treatment x2 contracts	£619,380
Individual Heating & Gas Safety Inspections x4 contracts	£6,815,013
District Heating, Laundries and Sewage Plant x4 contracts	£3,058,386

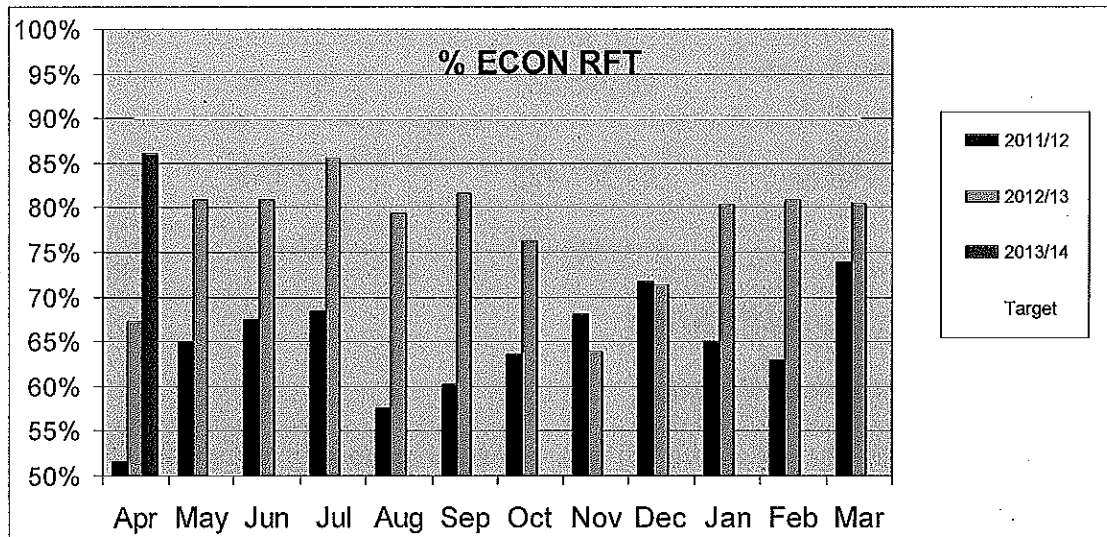
6. The ten (10) contracts were awarded by district as set out in the table below:

Contract Packages by Service & Area	Value per Annum* (Over 5 Years)	Contractor
Potable Water Testing & Treatment		
Borough & Bankside, Bermondsey & Leathermarket, Rotherhithe, Walworth	£321,685 (£1,608,425)	T Brown Group Ltd
Peckham, Nunhead & Peckham, Camberwell, Dulwich	£297,695 (£1,488,475)	T Brown Group Ltd
Individual Heating and Gas Safety Inspections		
Borough & Bankside, Bermondsey	£1,973,769 (£9,868,845))	T Brown Group Ltd
Peckham, Nunhead & Peckham	£1,274,444 (£6,372,220)	T Brown Group Ltd
District Heating, Laundries and Sewage Plant		
Borough & Bankside, Bermondsey	£475,245 (£2,376,225)	T Brown Group Ltd
Peckham, Nunhead & Peckham	£588,578 (£2,942,890)	T Brown Group Ltd
Individual Heating and Gas Safety Inspections		
Rotherhithe, Walworth	£1,841,069 (£9,205,345)	OCO Ltd
Camberwell, Dulwich	£1,725,731 (£8,628,655)	OCO Ltd
District Heating, Laundries and Sewage Plant		
Rotherhithe, Walworth	£1,529,596 (£7,647,980)	OCO Ltd
Camberwell, Dulwich	£464,967 (£2,324,835)	OCO Ltd

(* at the 2008 contract prices)

7. In 2009, housing commissioned Savill's to review housing services. In their report, Savill's suggested that all engineering contracts should be bundled together and let as a pair of multi service contracts, one for the north of the borough and one for the south.
8. Officers considered streamlining the ten (10) contracts, but there were no benefits to be obtained at this stage. The planned review of these contracts in autumn 2013 will address this.
9. A Gateway 3 variation report was approved on 21 December 2011 for the four (4) Individual Heating and Gas Safety Inspection contracts with T Brown Group Ltd and OCO Ltd, that recommended moving to a Price Per Property payment model (PPP Model) for tenanted dwellings for the remaining initial contract term period of 18 months from 1 April 2012 until 30 September 2013.

10. In a PPP model, a fixed price is paid for gas servicing and maintenance (breakdown) for each property irrespective of the number of repairs or visits completed. A PPP model provides cost certainty (any exclusions are dealt with through a Risk Contingency). The council is clear what it has to pay, the contractor is clear what they will receive and are incentivised to complete work properly first time, every time.
11. A Risk Contingency of £721,000 was established to deal with exceptional, unexpected or excluded items. To date this has not been drawn upon but the requirement for this facility remains.
12. The chart below shows the improvement in "right first time" since the introduction of the PPP Model. The Individual Heating & Gas Safety Inspections contracts, which were the subject to the change to the PPP Model, are not identified separately for performance reporting purposes.



13. It was projected that the variation to the four (4) Individual Heating and Gas Safety Inspection contracts would deliver savings of £1.47m per annum and a total of £2.2m over 18 months by 30 September 2013. These targets have been achieved, enabling the council to take savings of £750k in 2012/13 and re-invest the remainder in the service. As stated in the GW3 variation report approved on 21 December 2011, the PPP model was proposed for the individual tenanted dwellings only. There were S20 implications that prevented the PPP Model being extended to leaseholder dwellings that are covered by the other six (6) contracts.
14. It was identified in the Gateway 3 variation report approved on 21 December 2011 that it was probable that the council would seek to utilise the full extension option in order to maximise the projected benefits, which are now being realised.
15. The transition to the PPP Model included the implementation of revisions of the Key Performance Indicators (KPIs) to provide a set of challenging targets, moving from 75% to 90% for "getting it right first time" from April 2012. The revised KPIs were applied to all ten (10) contracts. This has resulted in KPIs improving since the move to the PPP Model. In effect, the change has led to substantial savings being delivered and a leap forward in performance.

16. The negotiations for the change to the PPP Model, the application of more stringent KPIs, and the subsequent implementation phase between January and May 2012, removed the need to tender the two (2) Potable Water Testing & Treatment contracts and the four (4) District Heating, Laundries and Sewage contracts in March 2012.
17. The ten (10) contracts, which are demand led, have been subject to changes due to building maintenance index adjustments and budget cost savings in previous years. The current budgets for these services for 2013/14 and 2014/15 (subject to 14/15 budget setting) and the estimated contract values are as follows:

	HRA (Includes TMO's etc.) Per Annum	Available Budget as Percentage of estimated Contract Value	Estimated Contract Value Per Annum
Potable Water Testing & Treatment Contracts	£878,487	141.83%	£619,380
Individual Heating & Gas Safety Inspections	£5,220,061	76.60%	£6,815,013
District Heating, Laundries & Sewage Plant	£4,347,423	142.15%	£3,058,386
Total	£10,445,971	99.55%	£10,492,779

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

18. A variation to the initial five (5) year contract period by utilisation of the full contract extension facility of 24 months from 1 October 2013 to 30 September 2015 to each of the ten (10) contracts.
19. Following the expiry of their heating maintenance contract, the corporate facilities management (CFM) team will use the individual heating and gas safety inspection contract (as approved by a Gateway 1 report dated 27 July 2013) as an interim arrangement to meet their interim ad hoc service requirements. The additional expenditure of up to £300k (£150k p.a.) is included in the value of the extensions and the total contract values detailed below:

Contract Title	Total Expenditure 1 October 2008 to 31 March 2013	Estimated Spend 1 April to 30 September 2013	1st Year Extension	2nd Year Extension
Potable Water Testing & Treatment - Borough & Bankside, Bermondsey & Leathermarket, Rotherhithe, Walworth	£1,505,049	£160,842	£321,685	£321,685
Potable Water Testing & Treatment - Peckham, Nunhead & Peckham,	£1,392,809	£148,847	£297,695	£297,695

Camberwell, Dulwich				
Individual Heating and Gas Safety Inspections - Borough & Bankside, Bermondsey	£9,234,560	£986,885	£1,973,769	£1,973,769
Individual Heating and Gas Safety Inspections - Rotherhithe, Walworth	£8,613,705	£920,535	£1,991,069	£1,991,069
Individual Heating and Gas Safety Inspections - Peckham, Nunhead & Peckham	£5,962,668	£637,222	£1,274,444	£1,274,444
Individual Heating and Gas Safety Inspections - Camberwell, Dulwich	£8,074,079	£862,866	£1,725,731	£1,725,731
District Heating, Laundries and Sewage Plant - Borough & Bankside, Bermondsey	£2,223,502	£237,623	£475,245	£475,245
District Heating, Laundries and Sewage Plant - Rotherhithe, Walworth	£7,156,434	£764,798	£1,529,596	£1,529,596
District Heating, Laundries and Sewage Plant - Peckham, Nunhead & Peckham	£2,753,746	£294,289	£588,578	£588,578
District Heating, Laundries and Sewage Plant - Camberwell, Dulwich	£2,175,414	£232,483	£464,967	£464,967
Totals	£49,091,966	£5,246,390	£10,642,779	£10,642,779

Reasons for Variation

20. The current arrangements have delivered the progressive improvements to the service and are providing good value to the council and high levels of resident satisfaction.
21. The change to the PPP Model for the four (4) Individual Heating and Gas Safety Inspections contracts has delivered considerable benefits to the council and its residents in the form of lower overall service costs and improved customer satisfaction. It is therefore highly desirable to seek to extend this by utilising the available contract extensions. As provided in paragraph 9 above, the PPP model was proposed for the individual tenanted dwellings only. There were S20 implications that prevented the PPP Model being extended to leaseholder dwellings that are covered by the other six (6) contracts. This decision occurred in the context of the 2009 Savill's report referred to in paragraph 7 above.
22. In mid 2013, the Engineering & Compliance team will separately procure specialist technical consultants to review the existing ten (10) contracts and consult on technical elements of the future contracts. This review will draw upon the experiences of the PPP Model, the Savill's review and explore improvement with the way the services are delivered.
23. It is the intention of the Engineering & Compliance team that the future contracts will bring these interrelated services together into two (2) geographically based contracts (North and South) to be awarded to two (2) separate contractors. This is in line with the recommendations of the 2009 Savill's review. The bundling together of service contracts, which share technical characteristics, into pairs of

geographically based contracts has been shown to deliver cost and efficiency improvements and effective risk mitigation. In order to achieve this, the Engineering and Compliance team need to extend all ten (10) contracts until 30 September 2015, so that from 1 October 2015 two (2) geographically based contracts, that encompass all the described services, may commence.

Future Proposals for this Service

24. A review of Engineering Contracts for the Repair and Maintenance of Potable Water, Individual Heating Systems and District Heating and Engineering Systems leading to a revised specification for the services that results in two geographically defined contracts being awarded in 2015.
25. The indicative timescales for procuring new contracts are as follows and are set out in Appendix 1:
 - Service Review (commences August 2013).
 - Gateway 1 Report recommending a procurement strategy for the re-tendering of the contracts (April 2014).
 - Publication of OJEU notice for Expression of Interest (June 2014).
 - Evaluation of PQQ (July 2014).
 - Invitation to Tender (August 2014).
 - Evaluation of Tenders completed (December 2014).
 - Gateway 2 Report recommending Contract Award. (February 2015).
 - Award Contract (March 2015).
 - New Contract Mobilisation (April ~ September 2015).
 - New contracts commence (1 October 2015).
26. CFM's future service needs will be met by a new hard facilities management contract.

Alternative Options Considered

27. The following options were considered by the engineering and compliance team before determining the extension approval set out in this report:
 - a. Retender at end of Initial Term (5 Years) 30 September 2014 - this option is not viable as the retendering process would take in excess of a year to complete and therefore would have needed to be initiated by March 2012. This did not occur as the council was in the process of negotiating and then implementing the transition to the PPP Model for the four (4) Individual Heating and Gas Safety Inspection contracts and revised KPI targets for all ten (10) contracts that was not completed until May 2012.
 - b. Only extend for 12 months - Extending the existing ten (10) contracts for 12 months would be achievable but would limit the benefits the council is currently obtaining from the PPP Model and the capacity to further draw upon the experiences of the current PPP application to inform the future tender specification. It would not allow for sufficient time to integrate the findings of the 2013/14 Review of Engineering Contracts for the Repair and

Maintenance of Potable Water, Individual Heating Systems and District Heating and Engineering Systems into the tenders.

Identified risks for the extension

28. The table below identifies a number of risks associated with this procurement, the likelihood of occurrence and the control in place to mitigate the risks:

R/N	Risk Identification	Likelihood	Risk Control
R1	Gateway 3 report approval delayed	Low	Ensure report submitted for approval on time, with all concurrents in place.
R2	Decline in the contractors' performance	Low	Continue monthly monitoring of the service and address any performance issue at an early stage.
R3	Contractors go into administration or Liquidation during the contracts	Low	Appointment of an interim contractor from the council's Approved List.

Policy implications

29. The service, repair and maintenance of buildings are a fundamental requirement, since the council must ensure that it meets all of its statutory regulatory compliance obligations.

Contract management and monitoring

30. The council's contracts manager for Gas & Heating manages the contract and is responsible for authorising works, inspecting quality and monitoring the performance of the contractor. The council's Quantity Surveyor (QS) manages commercial aspects of the contracts. The QS reviews the monthly valuations and select jobs that require post inspections to ensure quality and financial accuracy. Monthly meetings are undertaken and recorded. CFM's principle mechanical and electrical engineer will be responsible for managing work undertaken on their behalf for the operational estate.

31. Works orders are raised and managed through iWorld, where all information relating to orders is contained. The contractors are required to provide 10% post-inspections that are rigorously audited by the council's electrical engineer.

32. The table below shows the KPIs for the contract:

	Key Performance Indicator (KPIs)	Minimum Target Percentage	Council's Objective
1.	Percentage of Emergency (Priority Code 0 and 1) Orders commenced during that month and completed within the stipulated time periods in each Order	95%	100%
2.	Percentage of Priority Code 2, 3 and 4		

	Key Performance Indicator (KPIs)	Minimum Target Percentage	Council's Objective
	Orders completed within the stipulated time periods.	95%	98%
3.	Percentage of Orders for which an appointment can be made and is kept.	95%	100%
4.	Percentage of Orders for which a Recall Notice (Recall Order) has not been issued within the calendar month.	98%	100%
5.	Completion of response repairs at the time of the first visit.	90%	95%
6.	Percentage of Planned Inspection and Testing Program On Time.	98%	100%
7.	Response to queries or complaints from residents and Council Officers to meet the Council's Corporate Complaints Policy i.e. within 5 days.	100%	100%

33. As shown in the chart in paragraph 12 above, there has been a progressive improvement in the contractors' performance and their achievement of "Right First Time" since 2011.
34. T Brown Group Ltd and OCO Ltd are meeting the original contractual KPI's as detailed in paragraph 32.

Community Impact Statement

35. The ten (10) contracts are a borough-wide service. They are concerned with responsive and planned works and seek to improve the quality of the service.
36. They affect all communities/groups in the borough and contribute to the improvement of the quality of life for residents. The direct benefits to residents include limiting the incidence of breakdowns and more reliable and responsive services.

Economic considerations

37. T Brown Group Ltd is a private limited company operating throughout Southern England and provides employment opportunities for local communities.
38. OCO Ltd is a private limited company based in the South East employing in the region of 200 people. OCO Ltd provides apprenticeship opportunities to local communities. It operates a regionally-based industry supported training centre.

Social considerations

39. The contractors, T Brown Group Ltd and OCO Ltd, operate an Equal Opportunities Policy and are conversant and compliant with the council's own Equal Opportunities Policy.
40. 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. These contracts were tendered and awarded before the

council assembly decision and the tender documents did not therefore address this point. However both contractors were contacted on 19 April 2013 in order to establish whether they supported this decision and both contractors confirmed that they currently pay staff, which are engaged in providing these services, more than the minimum LLW rate and will continue to do so.

Environmental considerations

- 41. The use of low emissions vehicles and planning of journeys will continue to be encouraged within the ten (10) contracts.
- 42. All electrical and electronic equipment and components will continue to be disposed of in accordance with the latest Waste Electrical and Electronic Equipment Regulations (WEEE).

Financial Implications (FIN0773 – JP/ PD 05/08/13)

- 43. The estimated cost of the Repairs and Maintenance of Potable Water, Individual Heating Systems and District Heating and Engineering Systems per annum for the HRA is £10.493m, based on an indicative basket of goods when the contract was originally approved in 2008.
- 44. Since the original contract commenced, a variation to the individual heating and gas safety inspection contracts has been made, as detailed at paragraphs 9-13 of the report. The variation allowed for savings of £1.47m to be generated per annum, £0.75m of which has been taken as base budget savings and £0.72m retained within the current budget as a financial risk contingency against works not covered by the Price Per Property (PPP) contract. The heating budget for 2013/14 is £10.446m per annum for the HRA and whilst this is fractionally lower than the original notional contract value (based on the indicative basket of works in 2008), it is considered adequate to cover the cost of the contract and the annual Building Maintenance Index uplifts over the remainder of the original contract period and the subsequent extension to September 2015. This will be achieved through more rigorous contract management as part of the PPP.
- 45. The £300k estimated cost to the corporate facilities management (CFM) team of the individual heating and gas safety inspection contract is based on an estimated monthly spend of £20k and includes a contingency made up as follows

	Start period	End period	Cost £000
1) procurement exercise is completed on schedule	1 October 2013	30 June 2014	180
2) contingency period in the event of an extended procurement exercise	1 July 2014	31 December 2014	120
			300

- 46. The £300k costs will be funded from existing Corporate Facilities Management budgets and recharged to departments if appropriate.

Investment Implications (Housing Contracts only)

47. None.

Legal Implications

48. Please see the comments from the Director of Legal Services.

Consultation

49. Please refer to paragraph 61..

Other implications or issues

50. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

51. This report is seeking to extend the existing engineering contracts covering repair & maintenance of potable water testing & treatment, Individual heating & gas safety inspections and district heating, laundries & sewage plant with T Brown Group Limited and OCO Limited for a period of 24 months from 1 October 2013.
52. These services are currently being delivered through ten individual contracts. The report confirms that a review is scheduled to be carried out to determine how the services shall be delivered going forward. Paragraph 23 of the report advises that the intention is to streamline these contracts in future and have only two contracts covering the full range of services.
53. Paragraph 25 sets out the timescales for delivering the future proposals for these services. The timeline gives confidence that the extension period provides enough time to carry out a detailed service review and procure new contracts.
54. The report confirms that the performance for the current providers has been good with both continuing to meet the key performance indicators set out in the contract. In some areas, there has been a progressive improvement in the last two years. There would appear to be no reason why the council would not wish to continue with the current arrangements and exercise the full available extension of 24 months.

Director of Legal Services

55. This report seeks the approval of the strategic director of finance and corporate services for contract extensions to ten (10) Engineering contracts covering repair and maintenance of Potable Water Testing & Treatment, Individual Heating & Gas Safety Inspections and District Heating, Laundries and Sewage Plant which are being performed by T Brown Group Ltd and OCO Ltd. This report sets out the extent of the required extension and the reasons why the extension is necessary.

- 56. Paragraph 19 of this report confirms that the corporate facilities management (CFM) team will place orders under one of the Individual Heating & Gas Safety Inspections contract (for the Rotherhithe and Walworth areas) as an interim arrangement. It is confirmed that this contract does provide for operational properties managed by CFM.
- 57. CSO 4.6.2 a) provides that this decision is reserved to the strategic director of finance and corporate services to authorise these proposed contract extensions (ten (10)), after consideration by the corporate contracts review board (CCRB) of this report. The report has been considered by CCRB and its comments have been included.
- 58. CSO 2.3 provides that an extension decision may only be made if the expenditure has been included in approved revenue or capital estimates or has been otherwise approved by, or on behalf of the council. Paragraphs 43 to 46 of this report confirm how the proposed additional expenditure will be funded.

Strategic Director of Finance and Corporate Services (F&CS13/023)

- 59. This report seeks approval of contract extensions to ten engineering contracts for a period of 24 months from 1 October 2013 at a total combined estimated value of £21.3m.
- 60. The strategic director for finance and corporate services notes the financial implications detailed in paragraphs 43 to 46. Rigorous contract management will be required to contain costs within budget and any pressures, including inflationary, will need to be reported through budget monitoring and budget setting.

Head of Specialist Housing Services (For Housing contracts only)

- 61. Consultation under schedule 2 of the regulations was carried out for all of these contracts in 2007. It is required that the consultation notice states the intended duration of the contract and in these notices it was stated that the contract is for a period of 5 years with options to extend by 24 months in 12 monthly increments. There is therefore no further obligation to consult on this extension of the contract period as it falls within the period that was identified in the original notice.

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 contained in the above report.

Signature  Date 11-9-13

Duncan Whitfield, Strategic Director of Finance and Corporate Services

BACKGROUND PAPERS

Background Papers	Held At	Contact
"Open" GW2 Report - Engineering Contracts for the Repair and Maintenance of Potable Water, Ventilation and Air Conditioning, Individual Heating Systems and District Heating and Engineering Installations – 24 June 2008	Engineering & Compliance, 160 Tooley Street	Gavin Duncumb X50685
"Open" GW3 Report - Individual heating and gas contract price per property – 21 December 2012.	Engineering & Compliance, 160 Tooley Street	Gavin Duncumb X50685

APPENDICES

No	Title
Appendix 1	Procurement Project Plan – future tendering

AUDIT TRAIL

Lead Officer	David Lewis, Head of Maintenance and Compliance	
Report Author	Gavin Duncumb, Commercial Manager	
Version	Final	
Dated	11 September 2013	
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
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	N/a	N/a
Date final report sent to Constitutional Team		11 September 2013

Appendix 1

Procurement Project Plan – future engineering contracts procurement

Activity	Complete by
Forward Plan	December 2013
DCRB Review Gateway 1: Procurement strategy approval	24 March 2014
CCRB Review Gateway 1: Procurement strategy approval	27 March 2014
Approval of Gateway 1: Procurement strategy report	April 2014
Issue Notice of Intention	26 May 2014
Completion of tender documentation	06 Aug 2014
Advertise the contract	02 June 2014
Closing date for expressions of interest	09 July 2014
Completion of short-listing of applicants	22 Aug 2014
Invitation to tender	25 Aug 2014
Closing date for return of tenders	03 Oct 2014
Forward Plan	November 2014
Completion of any interviews	11 Dec 2014
Completion of evaluation of tenders	18 Dec 2014
Issue Notice of Proposal	19 Dec 2014
DCRB Review Gateway 2: Contract award report	12 Jan 2015
CCRB Review Gateway 2: Contract award report	15 Jan 2015
Notification of forthcoming decision	January 2015
Approval of Gateway 2: Contract Award Report	February 2015
Notification of implementation of Gateway 2 decision	February 2015
Alcatel Standstill Period (if applicable)	01 March 2015
Contract award	02 March 2015
TUPE Consultation period	24 Sept 2015
Contract start	01 Oct 2015
Initial Contract completion date	30 Sept 2020
Contract completion date – if extension(s) exercised	30 Sept 2022

