

Item No.	Classification: Open	Date: 30 November 2015	Meeting Name: Strategic Director of Housing and Modernisation
Report title:		Gateway 2 - Contract Award Approval Borough Wide Boiler House Refurbishment	
Ward(s) or groups affected:		All	
From:		Director of Asset Management	

RECOMMENDATIONS

1. That the strategic director of housing and modernisation approves the award of the Borough Wide Boiler House Refurbishment contract to Mitie Property Services Ltd in the sum of £1,535,430 for a period of 40 weeks.

BACKGROUND INFORMATION

2. The planned procurement strategy was the subject of a Gateway 1 report which was approved on 10 July 2014. The approved competitive tendering procurement strategy was followed.
3. This is a Key Decision.
 - The tendered cost of the contract is £1,535,430 for a period of 40 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, Calfordseaden, were appointed on 20 November 2013, by way of an order from the council's Long Term Agreement, to provide the role of Employers Agent which includes contract administrator, project engineer, Principle Designer (PD) and quantity surveying (QS) functions required for this project as there is no capacity within the 'in-house' team to undertake these services.
5. There have been delays to the original project timings that were advised within the Gateway 1 report. The main reasons for the slippage to the original project plan are due to the following:
 - It was discovered that Notice of Intention (NOI) observations were completed on 29 August 2014 the contract was put on hold for further assessment due to issues around the tender documentation supplied by the consultant and was not tender until 23 March 2015.
 - Errors were noted in a Calfordseaden tender report which has now been resolved.

Procurement project plan (Key decision)

Activity	Completed by/Complete by:
Forward Plan for Gateway 2 decision	23Nov 2015
Approval of Gateway 1: Procurement Strategy Report	10 July 2014
Issue Notice of Intention (Applies to Housing Section 20 Leaseholder Consultation)	29 Aug 2014
Completion of tender documentation	20 Mar 2015
Invitation to tender	23 Mar 2015
Closing date for return of tenders	05 May 2015
Completion of evaluation of tenders	28 July 2015
Issue Notice of Proposal (Applies to Housing Section 20 Leaseholder Consultation)	27 Oct 2015
DCRB Review Gateway 2: Contract award report	30 Nov 2015
Notification of forthcoming decision – Five clear working days	09 Dec 2015
Approval of Gateway 2: Contract Award Report	11 Dec 2015
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	21 Dec 2015
Contract award	21 Dec 2015
Add to Contract Register	21 Dec 2015
TUPE Consultation period (if applicable)	N/A
Contract start	06 Jan 2016
Publication of award notice on Contracts Finder	21 Dec 2015
Contract completion date	02 Aug 2016
Contract completion date – if extension(s) exercised	N/A

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

6. There is an urgent need to replace the existing heating and hot water equipment within the plant rooms which have now reached the end of any economic repair resulting in increased cost and down time.
7. The proposed works are as follows:

Conant House

- The existing boilers and burners are in good condition and do not require replacement.
- Three dedicated flue ducts serving these boilers should be renewed with the consideration of a common flue duct header to link the three boilers.

- A new indirect calorifier be installed, fed from the existing boilers for the provision of hot water to all the dwellings within the two blocks.
- The entire heating, hot and cold water distribution pipe work together with all pumps and ancillary units to be stripped out and replaced with new.
- New controls, display panel and controller(s) to be installed to administer the provision of heating, hot and cold water.
- New boiler house gas safety equipment to be installed plus ventilation improvement works to include interlocked mechanical ventilation.

Heron House

- New gas fired boilers to be installed to replace the existing boilers.
- Three dedicated flue ducts serving these boilers should be renewed with the consideration of lining the existing brick flue header and the chimney stack.
- A flue dilution fan may need to be incorporated within the arrangement.
- New indirect calorifiers to be installed with LTHW fed from the existing boilers, for the provision of hot water to all the dwellings within the two blocks.
- The entire heating, hot and cold water distribution pipe work together with all pumps and ancillary units to be stripped out and replaced with new.
- New controls, display panel and controller(s) to be installed to administer the provision of heating, hot and cold water.
- New boiler house gas safety equipment to be installed plus ventilation improvement works to include interlocked mechanical ventilation.

Helen Gladstone House

- All asbestos to be removed from the boiler house.
- Renew all electrical supplies to the boiler house.
- Supply and install new boilers to replace the existing ones.
- Renew entire pipe work and all associated units including pumps.
- Install new controls including new panel to replace the existing and install new gas safety equipment to replace the existing.

Albert Wescott House

- New gas fired boilers to be installed to replace the existing ones.
- The dedicated flue ducts serving these boilers together with their common header to be renewed with the consideration of lining the chimney stack.
- A flue dilution fan may need to be incorporated within the arrangement.
- The entire LTHW distribution pipe work together with all pumps and ancillary units to be stripped out and replaced with new.
- New controls, display panel and controller(s) to be installed to administer the provision of heating and hot water.
- New boiler house gas safety equipment to be installed plus ventilation improvement works to include interlocked mechanical ventilation.

King Charles Court

- Newly installed boilers and their dedicated flues to be left as installed.
- Three old boilers, their dedicated flue ducts, and the common flue header serving the six boilers to be renewed.

- The flue dilution fan to be renewed as part of this installation.
- The indirect calorifier to be replaced with a new direct gas fired unit.
- The entire heating, hot and cold water distribution pipe work within the boiler house together with all pumps and ancillary units to be stripped out and replaced with new.
- New controls, display panel and controller(s) to be installed to administer the provision of heating, hot and cold water.
- New boiler house gas safety equipment to be installed, to include interlocked products of combustion extract arrangement.

Lew Evans House

- The existing boilers together with their flue to be renewed.
 - The entire heating (LTHW) distribution pipe work within the plant room, together with all pumps and ancillary units to be stripped out and replaced with new.
 - New controls, display panel and controller(s) to be installed to administer the provision of heating, hot and cold water.
 - The boiler house safety arrangement to be upgraded.
8. The scope of works has changed since the Gateway 1 report as works at Stanswood Gardens' boiler house were removed and completed separately by T Brown Group Ltd on instruction from the council's engineering and compliance team.
 9. The new heating and hot water systems should reduce maintenance and enhanced economical performance.
 10. The new installation will be fitted with a BMS system which will enable remote monitoring of the systems and enable rapid response to system faults.
 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 continues the council's on-going 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 10 July 2014, contract standing orders (CSOs) require a minimum of 5 contractors to be invited to tender from the council's works Approved List. On this occasion, 7 contractors were invited to tender for these works all from the specialist mechanical services category of the council's works Approved List. The tenders were issued on 23 Mar 2015 with instructions to return the completed tender by 12 noon on 5 May 2015.
17. No nominations were made by leaseholders.

Tender evaluation

18. Only 4 tenders were returned to 160 Tooley Street on or by 12 Noon on 5 May 2015 and were opened on 6 May 2015, three contractors could not supply a tender return due to circumstances outside their control.
19. These tenders were evaluated on the basis of M.E.A.T (most economically advantageous tender) using a weighted model of 70:30 price and quality.
20. The tender pricing evaluation process was undertaken by a Calfordseaden QS. The quality evaluation panel process was assessed individually by Calfordseaden principle engineer and project engineer and the council's senior mechanical engineers.
21. 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. The quality assessment was weighted in relation to the level of importance put upon each criterion and is detailed in the Tender Evaluation Methodology included within the tender documents and attached as Appendix 1. The results of the quality assessment are summarised in a table in paragraph 31.
22. Tender prices submitted are as follows:

Ref	Contractor	Tender Sum (£)
1	Contractor 2	£1,343,404.00
2	Mitie Property Services (UK) Ltd (MITIE)	£1,453,244.80
3	Contractor 3	£1,440,009.91
4	Contractor4	£2,139,465.00

23. The estimated costs for the works provided in the Gateway 1 report was based upon a pre-tender estimate provided by Calfordseaden in June 2014 of £1.92m which was higher than the cost of the works submitted by MITIE. The difference is £384,570.22 (approximately 20%) lower than what was originally estimated and therefore the tender submitted by Mitie provides value for money.
24. The estimated works completion timescale proposed in the Gateway 1 report was 30 weeks. However, there has been an increase of 10 weeks bringing the expected completion to 40 weeks. This is due to the fact that work will need to be staggered to avoid the impact on multiple sites due to on-going legal issues separate to the project which require works to one site to be delayed.
25. All priced documents submitted were checked for arithmetical errors and general compliance with the tender requirements by Calfordseaden.
26. Mitie had a number of qualifications which resulted in an increase to the original tender of £82,184.98.
27. The results of the revisions as described above are as follows:

Ref	Contractor	Tender Sum (£)
1	Contractor 2 (C2)	£1,343,404.00
2	MITIE	£1,535,429.78
3	Contractor 3 (C3)	£1,440,009.91
4	Contractor 4 (C4)	£3,755,382.00

28. The summary results of the quality evaluation is shown in the table below:

Evaluation Criterion	C2	MITIE	C3	C4
Method Statement 1:	5.0	6.5	6.5	10.0
Method Statement 2:	2.0	7.0	5.0	10.0
Method Statement 3:	2.0	8.0	5.0	10.0
Method Statement 4:	2.0	8.0	7.5	10.0
Method Statement 5:	2.0	7.5	5.0	10.0
Method Statement 6:	4.5	7.0	7.0	9.0
Method Statement 7:	2.0	8.0	4.0	9.5
Total Quality Score	18.5	57	40	68.5
Weighted Score	8.3	22.2	16.0	29.4

GEM did not meet the required minimum score threshold which scoring 2 or less out of 10 in any method statement or a score of 12 or less in their quality bid as set out in the Tender Evaluation Methodology.

29. In terms of assessing the quality of the method statement proposals, MITIE's responses scored second highest and combined with the tender cost are the best value option.

30. The summary results of the evaluation are shown in the schedule below:

Rank	Organisation	Total Price (out of 70)	Quality Score (out of 30)	Total Score (out of 100)
1	MITIE	60	22.20	82.20
2	Contractor 3	65	16.00	81.00
3	Contractor 2	70	8.30	78.30
4	Contract 4	0	29.4	29.4

- The price score has been changed from a minus fifty-six for Vital to zero in this table to better reflect the contractor's quality score, the minus score was due to the large price difference in Vitals tender

31. Seven contractors were invited to tender for the works with four contractors failing to return a completed tender. The council considers, after taking advice from Calfordseaden, that the market has been adequately tested. The cost/quality concludes that Mitie Property Services Ltd has the most economically advantageous compliant tender. It is therefore recommended for the acceptance of the tender submitted by Mitie Property Services Ltd in the sum of £1,535,430
32. The date for acceptance of the above tenders expired on 7 May 2015. All contractors agreed an extension to end of December 2015.

Plans for the transition from the old to the new contract

33. Not applicable.

Plans for monitoring and management of the contract

34. The contract will be managed on a day to day basis by Calfordseaden. The finances will be managed and monitored by the council's mechanical and electrical (M&E) project manager.
35. In addition to Calfordseaden, 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.
36. Monthly progress meetings will be held with Mitie Property Services Ltd and chaired by Calfordseaden, to monitor the progress of the works throughout the contract period. Both Calfordseaden 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. Calfordseaden will provide monthly financial reports and valuations.

Identified risks for the new contract

37. Specific risks identified, impact, likelihood and mitigation controls for this contract are outlined below:

Risk	Impact	Probability	Mitigation
Does MITIE have	Medium	Low	MITIE has provided a list of

enough previous experience of similar successfully delivered works			successfully delivered schemes for Local Authorities together with other information within their tender submission.
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. MITIE has confirmed they are part of a larger group and a parent company guarantee will also be required. 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 will be obtained and the council will re-tender the works if necessary. Paragraph 64 confirms that MITIE is considered at below average risk of going bankrupt within the next 12 months.

Other considerations (For Housing Department works contracts only)

38. This report seeks approval for the acceptance of the most economically advantageous tender in accordance with CSO 4.5.2. It is therefore considered that there were no alternative viable options.

Design Specification Guide

39. Calfordseaden produced a design brief for the works at the various boiler houses as outlined above in paragraph 4 and Calfordseaden issued this as part of the tender documents.

Leasehold Implications

40. Formal legal consultation with leaseholders has been undertaken by the council's specialist housing services team.

Community impact statement

41. The work proposed under this contract is to replace heating and hot water equipment within the specified plant rooms.
42. The impact of the works to the residents will be medium and will not involve them being decanted. The connections from the temporary and new to the existing systems 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, MITIE 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.

43. 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 Southwark Council to maintain a reliable heating service. In addition, the works should help reduce the energy costs for the district heating system.
44. It is anticipated that residents will be receptive to the works. There may be minor concern over the timescales for the project, particularly in regard of outages as a result of the changeover from existing to new.
45. The district heating system is set up to operate when the external ambient temperature drops below 17°C. The contractor is required to provide temporary heating throughout the works so the heating and hot water should not be affected except during scheduled system changeovers, thereby minimising inconvenience to residents. The new secondary hot water services pipe work will be installed once the temporary systems are in place and operational. This process will enable the contractor to change over from existing to temporary systems and from temporary to new in each block in under 12 hours. Once the temporary services are in place, the redundant plant will be removed and the new secondary heating services installed in its place. In the event of inclement summer weather and the outside ambient temperature falling below 17°C and a loss of heat over 12 hours, residents will be offered temporary electric fan heaters to use during the period.
46. The level of disturbance or disruption to the general public is considered negligible as the works will not adversely affect any particular group, will not involve any resident being decanted and will not impact on the public highway. Overall the undertaking of these works has been judged to have little or no significant impact on local people and communities.

Sustainability considerations

47. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area. These issues are considered in the following paragraphs which set out economic, social and environmental considerations.

Economic considerations

48. The full cost of the contract (including fees and the like) is £1,855,626. The contract period is 40 working weeks.
49. Mitie Property Services Ltd is a large national company part of the Mitie Group Plc with a turnover in excess of £274m based in Orpington, Kent. and where possible, will be using local companies in their sub-contracting and supply chain arrangements.

Social considerations

50. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, its contractors and sub-contractors pay staff at a minimum rate equivalent to the LLW rate. The Gateway 1 report approved on 10 July 2014 confirmed, for the reasons stated in that report, payment of LLW was an appropriate and best value requirement for this contract. MITIE has confirmed that they meet the LLW requirements. Following award, quality improvements and costs implications linked to the payment of LLW will be monitored as part of the contract review process.

Environmental considerations

51. The proposed works will not have any environmental impact.

Market considerations

52. 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.
53. 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 MITIE. However, MITIE will be encouraged to make use of local labour, wherever possible.

Staffing implications

54. There are no specific implications.

Financial implications

55. Expenditure for this scheme will be met from the Warm Dry Safe (WDS) Capital allocation. The cost of these works is coded to H-1213-9236. The anticipated expenditure is below the original allowance made for this scheme from the WDS capital allocation.

Investment implications

56. The cost of the works will be met from the Housing Investment Programme which includes provision for M&E heating works. The costs for this project are under the provision made for this scheme.
57. There is sufficient resources available to meet the proposed expenditure

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

58. A second stage appraisal was sought. The result showed that MITIE had an Experian Delphi score of 79 and were classed as below average risk for failure.

Legal implications

59. In line with the requirements of CSOs, this report confirms that tenders were invited from contractors from the specialist mechanical services category of the

council's Approved List and that adequate financial provision to fund the expenditure associated with the delivery of this project is set out in the financial and investment implications of this report. There are no other specific legal implications arising at this stage.

Consultation

60. The two stage consultation process with leaseholders 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 to address any queries or issues they may have in regards to the works.
61. MITIE will issue regular newsletters to all residents on the Estate throughout the contract period.

Other implications or issues

62. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

63. As the value of this contract is below the current EU threshold no formal procurement concurrent is required

Director of Law and Democracy

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

Strategic Director of Finance and Governance (CAP15/152)

65. This report is requesting delegated approval from the strategic director of housing and modernisation to proceed with the works package entitled "WDS Year 5 Boiler House refurbishment Borough wide" appointing Mitie Property Services Ltd for the contract value of £1,535,430.
66. The report identifies the total cost of the works including fees and contingency to be £1,825,661. The financial implications section details the funding arrangements.
67. It is also noted that budgets will be transferred and re-profiled against the project as required for monitoring and reporting the contract costs against approved budgets.
68. Staffing and any other costs connected with this contract to be contained within existing departmental revenue budgets.

Director of Exchequer (for housing contracts only)

69. This contract is for qualifying work under the terms of the Common hold and Leasehold Reform Act 2002. Service charges are in excess of £250 for leaseholders and so consultation is required under the Section 20 of the

Landlord and Tenant Act 1985 (as amended).

70. Notice of Intention was served on 29 August 2014. Notice of Proposal was served on 17 September 2015. Six observations were received in response to the Notice of Proposal. None raised issues that would suggest that the contract should not go ahead.
71. There are four blocks affected by these works. Charges will be made to 85 leaseholders. The average service charge is £4,000.

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 22.12.15
Gerri Scott, Strategic Director of Housing and Modernisation

BACKGROUND DOCUMENTS

Background documents	Held At	Contact

APPENDICES

No	Title
n/a	

AUDIT TRAIL

Lead Officer	David Markham, Director of Asset Management
Report Author	David Byrne, Project Manager
Version	Final
Dated	14 December 2015
Key Decision?	Yes

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER

Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes

Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Director of Exchequer	Yes	Yes
Cabinet	N/a	N/a
Date final report sent to Constitutional/Community Council/Scrutiny Team		n/a

BACKGROUND DOCUMENT – CONTRACT REGISTER UPDATE -GATEWAY 2

Contract Name	Borough Wide Boiler House Refurbishment
Contract Description	Heating Works
Contract Type	GC Works 1 Single Stage Design and Build
Lead Contract Officer (name)	David Byrne Project Manager
Lead Contract Officer (phone number)	020 7525 7273
Department	Asset Management
Division	Housing and Modernisation
Procurement Route	Competitive Tender
EU CPV Code (if appropriate)	N/A
Departmental/Corporate	Departmental
Fixed Price or Call Off	Fixed Price
Supplier(s) Name(s)	Mitie Property Services Ltd
Contract Total Value	£1,535,430.00
Contract Annual Value	£40,000.00 Year 2015/16 £1,455,294 Year 2016/17 £40,136 retention 2017/18
Contract Start Date	6 January 2016
Initial Term End Date	2 August 2016
No. of Remaining Contract extensions	0
Contract Review Date	N/A
Revised End Date	N/A
SME/ VCSE (If either or both include Company Registration number and/or registered charity number)	N/A
Comments	None
London Living Wage	Yes

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