

Item No. 25.	Classification: Open	Date: 20 October 2020	Meeting Name: Cabinet
Report title:		Gateway 3 – Contract Variation Heating and Water Contracts A&B	
Ward(s) or groups affected:		All	
From:		Strategic Director of Housing and Modernisation	

FOREWORD - COUNCILLOR LEO POLLAK, CABINET MEMBER FOR HOUSING MANAGEMENT

One of the fundamentals of a good home is for reliable heating and hot water, and with a number of ageing of heating systems on our estates, the quality of our maintenance and engineering response to outages is of paramount importance. This report renews the existing contracts with OCO covering the north of the borough and Byford and Smith covering the south, for responsive repairs, installations, maintenance and testing of Southwark’s heating and water installations, as well as providing emergency response covering all hours of the day and all days of the year.

Both contracts have date performed well with performance indicators on appointments kept, jobs completed first time, resident satisfaction and gas servicing all having improved in each of the past 3 years. This report recommends to extend the existing contracts for a further 3 years up to March 2024, with a review in January 2022 to ensure performance continues to improve and the contracts are providing value for the money.

The decision also secures additional apprenticeships, ensuring our contracts are creating new jobs and skills development opportunities for Southwark residents.

RECOMMENDATIONS

1. That Cabinet

- Approves the variation of Contract A (north of the borough) Heating and Water contract to OCO Ltd to extend the term of the contract for a period of three years from 1 April 2021 at an estimated sum of £12.5m per annum making a total estimated extension value of £37.5m, and estimated contract value of £82.5m for eight years composed of actual and projected expenditure.
- Approves the variation of Contract B (south of the borough) Heating and Water contract to Smith & Byford Ltd to extend the term of the contract for a period of three years from 1 April 2021 at an estimated sum of £8.2m per annum making a total estimated extension value of

£24.6m, and a total estimated contract value of £59.3m for eight years composed of actual and projected expenditure.

BACKGROUND INFORMATION

2. On 15 September 2015 Cabinet approved a Gateway 2 report to award two Heating and Water Contracts:
 - Contract A (north of the borough) was awarded to OCO Ltd (OCO) for a period of five years at an estimated annual sum of £7.2m with the option to extend for a further five years (3+2) making a total estimated contract value of £72m.
 - Contract B (south of the borough) was awarded to Smith & Byford Ltd (Smith & Byford) for a period of five years at an estimated annual sum of £6.6m with the option to extend for a further five years (3+2) making a total estimated contract value of £66m.
3. The contracts (Contracts A and B) encompass the following work streams:
 - landlord's gas safety inspections;
 - responsive repairs, installations and maintenance for gas and heating installations to individual and district heated properties;
 - potable water testing, treatment and installations;
 - responsive repairs and maintenance for laundry and sewage plant;
 - testing and maintenance of dry/ wet riser installations;
 - maintenance of building energy management systems; and
 - emergency response that covers a 24/7, 52 weeks a year period.
4. The separation of Contracts A and B across a geographical split of the borough (north and south) combining all the above services facilitates better logistical service coverage given the importance of these services to residents. The appointment of a single contractor for these services was not considered appropriate. The contracts contain the provision for the contractors to provide back-up to each other that ensures that the council is able to meet its obligations to residents.
5. Both contracts contain a General Maintenance Index (GMI) adjustment that is calculated and applied each April after the first year.
6. The actual expenditure to date against the original Gateway 2 approval is shown below in tables to illustrate the financial year and contract year expenditures. Increases to projected expenditure for proposed extension period for both contracts is due to costs arising from district heating, temporary boilers and fuel costs.

Contract A - OCO Heating and Water Contract			
Period		Original Gateway Approval (£m)	Actual Expenditure Contract A
1/4/2016	31/3/2017	£7.2m	£7.1m
1/4/2017	31/3/2018	£7.2m	£7.5m
1/4/2018	31/3/2019	£7.2m	£7.7m
1/4/2019	31/03/2020	£7.2m	£10.2m
1/4/2020	31/03/2021	£7.2m	£12.5m
Totals		£36m	£45m
Projected Expenditure for Proposed Extension Period			
1/4/2021	31/3/2022	£12.5m	
1/4/2022	31/3/2023	£12.5m	
1/4/2023	31/3/2024	£12.5m	
Total		£37.5m	
Total of the Actual and Projected Expenditure for the Period 01/4/16 to 31/3/21 and the Proposed Extension			£82.5m

Contract B Smith & Byford Heating and Water Contract			
Period		Original Gateway Approval (£m)	Actual Expenditure Contract B
1/4/2016	31/3/2017	£6.6m	£4.6m
1/4/2017	31/3/2018	£6.6m	£6.6m
1/4/2018	31/3/2019	£6.6m	£7.8m
1/4/2019	31/3/2020	£6.6m	£7.5m

1/4/2020	31/3/2021	£6.6m	£8.2m
Totals		£33m	£34.7m
Projected Expenditure for Proposed Extension Period			
1/4/2021	31/3/2022	8.2m	
1/4/2022	31/3/2023	8.2m	
1/4/2023	31/3/2024	8.2m	
Total		24.6m	
Total of the Actual and Projected Expenditure for the Period 01/04/16 to 31/03/21 and the Proposed Extension			£59.3m

7. Both contracts have performed well and this report is seeking approval for a 3 year extension for each contract to 31 March 2024 to ensure that the council can deliver heating and water works in a timely manner whilst a longer term procurement exercise is carried out and to help cover any potential delays in completing the new procurement.

KEY ISSUES FOR CONSIDERATION

Key Aspects of proposed variation

8. The nature of the proposed variations is to exercise the option in the contracts with OCO and Smith & Byford to be extended for a period of three years. The revised completion date will therefore be 31 March 2024.
9. The retention of the option to extend for a further 2 years up to 31 March 2026 remains available.

Reasons for variation

10. The reason for the extensions is that as a landlord, it is essential that the council maintains housing's existing assets and delivers repair and maintenance to heating and water installations. These two contracts also provide a gas and water safety inspection regime in order that the council fulfils its statutory duties and obligations as a landlord. The contractors have been consulted and they have stated that they wish the contracts to be extended.
11. The service provides inspection and maintenance to housing's energy management systems and dry and wet risers.

12. Both contracts are demonstrating high levels of performance against the contract Key Performance Indicators (KPIs) set, as detailed in paragraph 27 below, and to continue to provide a value for money service.

Future proposals for this service

13. There is the option to extend both contracts for a further two years. If the contracts continue to meet the council's service requirements and continue to provide value for money, a Gateway 3 report will be presented for approval in September 2023.
14. A review of the services will be carried out in January 2022 to determine whether the existing contract arrangements continue to provide value for money and meet key performance levels.

Alternative options considered

15. The following alternative options to these extensions were considered

No.	Option	Impact
1	Do Nothing	This option is not available as the council is obliged to provide the range of services detailed in paragraph 3 to meet its obligations as a social landlord.
2	Bring the service back in-house	The council currently does not have the resources and facilities to deliver these services.
3	Procure new contracts	<p>The current contracts' performance has been improving each year and both contractors now have excellent local knowledge of the council's estates, district heating and assets.</p> <p>There is no benefit to re-procuring the contracts now as due to the continuing Covid-19 crisis there are significant constraints on staff and companies to be able to carry out and participate in an effective procurement exercise.</p>
4	Joint procurement with neighbouring borough	<p>The neighbouring boroughs have their own contracts and their terms that do not coincide with Southwark's contracts, and their housing stock assets are significantly smaller</p> <p>Due to the scale of Southwark's housing assets partnering in a joint procurement is not attractive to other authorities with smaller assets as the resulting contract would be primarily centred on Southwark's</p>

No.	Option	Impact
		requirements and the partner authority is likely to be subordinated to them. There are very few authorities in the UK with a similar housing asset portfolio and none is in the London region.

Identified risks for the variation

16. The table below identifies the specific risks associated with these contracts, the likelihood of occurrence and the controls in place to mitigate the risks:

R/N	Risk	Likelihood	Risk Control
R1	OCO and/or Smith & Byford cease trading, go into administration/ liquidation.	Low	<p>The contracts contain the provision for the contractors to act as backup for each other. If all contractors cease trading, then the council's works approved list will be used whilst re-procuring the contract(s).</p> <p>The financial stability of the organisations is continuously monitored throughout the contract through the contract management process.</p> <p>Retention is held on all interim payments in order to help mitigate against the risks involved of company failure by either OCO or Smith & Byford.</p>
R2	OCO and/or Smith & Byford are unable to fulfil the requirements of the contract e.g. poor performance, leading to the need to terminate the contract.	Low	<p>The council will use backup arrangements within the contract. If both OCO and Smith & Byford fail, then the council's Approved list of contractors will be used to distribute the works whilst contracts are re-procured. Alternatively, an external framework could be accessed.</p>
R3	Covid-19 pandemic risks	Low	<p>Asset management has contacted all contractors to ensure that core services are maintained during the crisis and it is able to respond to emergencies.</p>

R/N	Risk	Likelihood	Risk Control
			<p>OCO and Smith & Byford are being monitored for any change in trading status via alerts from Companies House and industry information databases.</p> <p>Both OCO and Smith & Byford are only responding to reports of no heating-water leaks, gas safety matters whilst being supplied with relevant PPE and both companies are following Public Health England (PHE), Health & Safety Executive (HSE) and Gas Safe Guidelines. Further detail is provided below.</p>
R4	<p>Brexit:</p> <p>Risk of disruption to supply chain following UK's departure from the European Union</p>	Medium	<p>Monitoring government notices regarding trade negotiations and import tariff proposals.</p> <p>Contract managers and quantity surveyors to liaise with contractors regarding their supply chains in respect of tariffs, administration costs and budgetary impacts.</p> <p>Contract managers to liaise with contractors to ensure that measures are taken to ensure continuous component supply where they are obtained from the EU.</p>

COVID-19 implications

17. Both companies are only responding to reports of no heating-water leaks, gas safety matters and are supplied with relevant PPE, and both companies are following PHE, HSE and Gas Safe Guidelines.
18. Smith & Byford have assisted the housing call centre in developing additional scripting around Covid-19 self-isolation shielding to protect both residents and contractors.
19. The heating and water team are also only carrying out essential dwelling checks but still regularly checking boiler houses, plant rooms and tank rooms. All staff have the appropriate PPE and are only meeting via Zoom and MS teams rather than face to face. Only essential service provision visits are made to Tooley Street offices.

Brexit

20. On 21 May 2020 the UK published its new Global Tariff to be applied from 1 January 2021 at the end of the Transition Period. Should the UK not conclude a comprehensive free trade deal with the EU and not extend the transition period, then the Global Tariff rates will apply to all imported goods. The tariff for manufactured metal goods (i.e. copper pipe fittings) ranges from 2.5% to 5%.
21. Council officers are monitoring government updates regarding Brexit.

Policy implications

22. The extension to these contracts will assist the council to continue to deliver on three of its Fairer Future commitments, Theme 1 - a place to call home; Theme 3 – a greener borough; and Theme 4: A full employment borough.
23. These contracts ensure that the council fulfils its obligations as a social landlord and employer.
24. The services provided by these two contracts underpin the objectives set out in the current Southwark Housing Strategy to improve energy efficiency in every home.

Contract management and monitoring

25. The contracts are managed by asset management through a dedicated contract manager and technical inspectors who work to ensure both contractors fulfil their contractual and safety obligations.
26. The team, supported by quantity surveyors and the Quality Audit Management Systems (QAMS) consultants, carry out rigorous inspections of quality and costs of works.

27. The contracts contain a number of KPIs which are detailed below:

OCO KPIs							
KPI		Min Target %	Council's Aspiration Objective %	KPI 16/17	KPI 17/18	KPI 18/19	KPI 19/20 YTD
1	Appointments Kept	98%	98%	96.8%	97.96 %	98.45%	98.51%
2	Completed at First visit-Right First Time	90%	90%	88%	91.3%	91.21%	93.48%
3	Customer Satisfaction	90%	90%	83%	90.27 %	91.01%	90.37%
4	Gas Servicing Compliance	100%	100%	100%	100%	100%	99.95%
Smith & Byford KPIs							
KPI		Min Target %	Council's Aspiration Objective %	KPI 16/17	KPI 17/18	KPI 18/19	KPI 19/20 YTD
1	Appointments Kept	98%	98%	95.4%	95.97%	97.03%	98.17%
2	Completed at First visit-Right First Time	90%	90%	84%	88.15%	89.9%	93.6%
3	Customer Satisfaction	90%	90%	83%	89.36%	91.11%	92.62%
4	Gas Servicing Compliance	100%	100%	99.95%	99.91%	100%	100%

28. Monthly progress meetings are held with both contractors and council officers who undertake post inspections of work to ensure quality.

29. A percentage of works orders are monitored by the following means:

- Physical site visits and pre and post inspections are carried out by the council's 6 in-house heating inspectors and 4 in-house senior

inspectors/managers backed-up by the council's quality auditing of mechanical services contractor, Gas Advisory Services Ltd trading as Phoenix Compliancy Management (PCM).

- Site inspections are also carried out by PCM and the council's in-house team to ensure compliance with the council's Planned Preventative Maintenance Programme and costs adjusted accordingly.
- In addition, desk top audits are carried out to ensure compliance with published Schedule of Rates (SORs). These are carried out by engineering services officers and the council's in-house quantity surveying team.
- As targets were not met within the first year of each contract, this was escalated to Director level and meetings took place with the Head of Engineering and Director of Asset Management and both contractors. The contract allows for defaults to be issued and termination of contract should the need arise however as performance has improved no formal notices have been issued.

30. Each month the council officers review works claimed by the contractors and hold back monies where there are issues with poor work or no evidence / breakdown of costs. Examples include district heating prime cost sums for large bespoke materials and ensuring these are only paid when a valid invoice has been provided.

31. To date both contractors are assisting in compiling detailed asset registers across the whole of the borough.

32. The council have confirmed that both OCO and Smith & Byford have provided evidence of the following;

- current insurances
- professional certification
- both contractors have confirmed that they do not operate any blacklisting
- both contractors have confirmed that all employees are equality aware and follow an equality policy
- both contractors have a number of sub-contractors that are verified by asset management compliance team for their competencies, accreditations background checks and qualifications prior commencing work on site and,
- confirmation and evidence that all directly employed staff and sub-contractors are paid in excess of the London Living Wage (LLW). This has been reviewed at the contractors' offices. An agreed list of all sub contractors is kept by both contractors and the council's gas compliance team.

Community impact statement

33. OCO Ltd and Smith & Byford Ltd provide employment and apprenticeship opportunities to the local community as detailed in paragraph 39.
34. Workplace experience will continue to be offered to residents that are not in education, employment or training to assist the council in meeting its Social Value objective. Local schools will also be allocated work experience places at each of the contractors' offices. This will be organised by the council's engineering and compliance team.

Social Value considerations

35. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

Economic considerations

36. The full cost to the council and the life span of the contracts are set out in paragraph 6 of this report.

Social considerations

37. The two contractors have their own equal opportunity policies and are fully aware of and are compliant with the council's own equal opportunity policies.
38. Both OCO and Smith & Byford have confirmed that all relevant staff continue to be paid the minimum LLW hourly rate and comply with council policies relating to GDPR, Blacklisting, Modern Slavery, Health & Safety and Equalities.
39. The contractors were required to employ 6 apprentices for each contract for the duration of the initial term of the contract. The contractors were also required to work with the council to ensure local opportunities. The following has been confirmed for each contractor during the initial term of the contract:
 - OCO – have employed 15 apprentices, since the beginning of the contract, across the various disciplines and provided 9 work experience placements.
 - Smith & Byford – have employed 16 apprentices on the contracts since its commencement, 6 of who are Southwark residents. Smith &

Byford have also created 3 full-time office roles in the Peckham offices, and employed 2 local young people in resident liaison roles. In addition they have run a familiarisation scheme for call-centre apprentices where they go out with engineers and experience front-line conditions, which has improved customer relations and service delivery.

40. In addition both contractors have provided work placement opportunities for local students and outreach to local schools promoting a career path in heating engineering, in particular encouraging young women to consider careers in engineering. OCO operates a well established training centre for its own staff and external candidates. In 2020 OCO commenced participating in the Working Out Scheme (WOS), that supports the rehabilitation of prisoners.
41. For the proposed extension period, the contractors will be required to employ an additional 3 apprentices each.

Environmental/Sustainability considerations

42. New boilers and plant will meet and exceed the minimum energy efficiency requirements to reduce the level of CO2 emissions.
43. Both contracts encourage the use of low emission vehicles and the minimisation of journeys needed. Both contractors maintain a modern fleet and manage activities through an Enterprise Resource Planning (ERP) system.
44. All components and equipment, being replaced, are disposed of in accordance with the latest Waste Electrical and Electronic Equipment Regulations (WEEE).
45. All recyclable packaging is set aside and disposed of via a recycling centre.
46. No hazardous materials are used.
47. OCO and Smith & Byford are issued with the council's current asbestos register to avoid any risk of exposure to the contractors or residents.

Financial implications

48. The table below details the annualised revenue budgets for both contracts covering the 3 year extension.

Contract	2021/2022 Revenue (£k)	2022/2023 Revenue (£k)	2023/2024 Revenue (£k)	Total (£k)
Contract A North – OCO Ltd	£7.2m	£7.2m	£7.2m	£21.6m
Contract B South – Smith & Byford	£6.6m	£6.6m	£6.6m	£19.8m

49. The estimated total annual cost for capital works is £7m per annum split between Contract A and B subject to demand.
50. The additional funds are derived from the revenue and capital budgets of the HRA engineering account. There has been an increase of £3m per annum from capital for heating and hot water since 2019/20.
51. BvD FAME financial checks were carried out for both contractors on 18 June 2020 with the following results;

	OCO	Smith & Byford
Credit Score	Secure	Secure
Turnover	Turnover for 2019 £ 17.2 m	Turnover for 2019 £ 32.2 m
Likelihood of failure	Low	Low

52. Asset management team monitor changes to the financial status via alerts from Bureau van Dijk FAME and Companies House.

Legal implications

53. Please see the supplementary advice from the Director of Law and Democracy.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (FIN1206)

54. The strategic director of finance and governance notes the contents of the report, particularly the increase in total costs associated with this contract and understands the total cost increase is due to increased demand volumes, not price increases. From the 2019-20 financial year an additional £7m has been invested in the Asset Management Service. £3m of this additional investment is from capital into the Heating and Water infrastructure.
55. The Strategic Director of Finance and Governance advises that any financial pressures arising from the need to invest in aging heating infrastructure should be included in budget reports, and considered as part of the annual budget setting process.

Head of Procurement

56. This report is seeking cabinet approval to extend two Heating and Water contracts for a 3 year period from 1 April 2021.
57. The report summarises the context and rationale for these contract extensions explaining that a further extension will be sought in September 2023 subject to continued satisfactory performance.
58. Paragraphs 25-32 confirm the management and monitoring arrangements established which should go some way to ensuring that the required level of contract performance is maintained in these three years. It would appear that there is no reason why the council should not continue with these arrangements for the recommended extension period.
59. Apprenticeships required under the two contracts are detailed in paragraphs 39- 41 and continued payment of London Living wage and adherence to council policies relating to GDPR, Blacklisting, Modern Slavery, Health & Safety and Equalities is confirmed in paragraph 38.
60. The report also confirms that officers will closely monitor the impact of the Covid 19 pandemic and Brexit to ensure wherever possible that core services are maintained and both able to respond to emergencies in the safest possible way.

Director of Law and Democracy

61. This report seeks cabinet's approval to the extension of 2 heating and water contracts (Contract A – north of the borough and Contract B – south of the borough) which are being performed by OCO Ltd and Smyth & Byford Ltd respectively. This report sets out the extent of the extension

and the reasons why the extension of 3 years is necessary. As the values of the variations exceed £15m, this is a strategic procurement under contract standing orders and approval is therefore reserved to cabinet.

62. The nature of these variations is such that they are subject to the tendering requirements of the Public Contracts Regulations 2015 (PCR 2015). Regulation 72(1)(a) of PCR 2015 allows the council to vary the current contracts as this option was provided for in the initial procurement documents and does not alter the overall nature of the contracts. Paragraph 9 of this report confirms that a further 2 year extension remains available for these contracts. Paragraph 13 of this report confirms that the extra available 2 year extension provision will be reviewed and the necessary gateway approval presented in September 2023.
63. CSO 2.3 requires that a variation decision may only be made if the expenditure involved has been approved. Paragraphs 48 to 50 of this report confirm the financial implications of these variations.

Director of Exchequer (for housing contracts only)

64. Consultation under S20 of the Landlord and Tenant Act 1985 (as amended) was carried out with all leaseholders in July 2015. The notice advised that the contract was for a duration of 5 years with the option for the council to extend for a further period of three and then two years. The extension of the contract at this time is within the terms set out in the Section 20 notice and no further statutory consultation with leaseholders is required.

BACKGROUND PAPERS

Background Papers	Held At	Contact
Gateway 1: Heating and Water Contracts	Housing & Modernisation, Asset Management	Gavin Duncumb 020 7525 0685
Link: http://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?ID=4761		
Gateway 2: Heating and Water Contracts	Housing & Modernisation, Asset Management	Gavin Duncumb 020 7525 0685
Link: http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?IId=50007506&Opt=0		

APPENDICES

No	Title
None.	

AUDIT TRAIL

Lead Officer	Dave Hodgson, Director of Asset Management	
Report Author	Rod Davies, Procurement Manager	
Version	Final	
Dated	21 September 2020	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Director of Exchequer (for housing contracts only)	Yes	Yes
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	9 October 2020	