

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet

Date: 16/12/2024

Subject: Gas and Ancillaries Term-Service Contract (Housing)

Report of: Councillor Frances Umeh, Cabinet Member for Housing and Homelessness

Report authors: Richard Buckley, Assistant Director Residents and Buildings Safety
Richard Shwe, Director of Housing

Responsible Director: Richard Shwe, Director of Housing

SUMMARY

Following the successful implementation of a new repairs contract, delivered within the past nine months, there is a need to review the gas and ancillary items contract for Housing which will be ending on 31 July 2025.

The current contract does allow for an extension of two years, structured as one plus one year, subject to mutual agreement by client and contractor. The contract extension would be let on the existing contract terms and conditions.

The current contractor is seeking amendments to the contract, which the Director of Housing, Assistant Director of Residents and Building Safety and Head of Mechanical and Engineering does not believe would offer value for money for residents. Taking on board officers' professional advice it would therefore be more appropriate to source a new contractor to take over from Friday, 1 August 2025.

The provision of safe gas, heating and hot water is fundamental for the Council and is a priority of the building safety compliance, it is imperative to reprocure a new contract. Looking at lessons learnt from the recent repairs contract re-let and feedback from the professional officers including the Director of Housing, Assistant Director of Residents and Building Safety and Head of Mechanical and Engineering it is appropriate that a new five-year contract could be reprocured using a mini competition option of the compliant South East Consortium (SEC) Heating and Water Hygiene Framework – Lot 1 'domestic and commercial heating'.

RECOMMENDATIONS

1. It is recommended to approve the procurement strategy to procure a new gas and ancillaries' contractor, using the mini competition option of the SEC domestic and commercial heating framework, for a contract term of 5 years.
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Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Corporate Plan and the H&F Values
Building shared prosperity	Designing and delivering a high-quality, responsive and value for money gas service will ensure that the Council's assets are invested in and maintained. Good quality provision of services will ensure residents feel confident and supported. We will maximise the financial and social return on investment.
Creating a compassionate and inclusive council	Residents rightfully expect to have access to safe effective heating and hot water. The Council's commitment to establishing a high-quality safe service is an important way of ensuring this. When something goes wrong in one of our properties, this is often when our residents and tenants need our support the most. We will ensure our service is responsive and personalised to meet needs.
Doing things with local residents, not to them	Residents have a significant stake in the quality of living in H&F managed homes. We are keen to invest in a safe and good quality customer experience for all residents.
Being ruthlessly financially efficient	Reprocuring for a new five-year contract using a mini competition ensures we obtain a good financially efficient and stable service that is also viable for the contractor.
Taking pride in H&F	Safe homes with efficient heating and hot water are a cornerstone in providing good homes that residents and H&F are proud of.
Rising to the challenge of the climate and ecological emergency	Gas is the primary fuel source at the moment and highest carbon emitter in housing. Ensuring efficiently maintained gas services whilst we transition to net carbon zero sources minimises the impact.

Financial Impact

This report is not intended to approve budgets but is seeking approval of the procurement strategy. A further report will be required to approve the appointment of a contractor and to set out the detailed financial implications. At this stage, the expectation is that the costs of the procurement will be funded from annually approved budgets.

Danny Rochford, Head of Finance (Housing), 16 October 2024

Verified by Sukvinder Kalsi, Executive Director of Finance and Corporate Resources, 18 November 2024

Legal Implications

The Council has a duty under the Landlord and Tenant Act 1985 to ensure the provision of heating and hot water for its tenants and to ensure that gas installations are in proper working order.

Because of the likely value of the contract the Council is obliged to undertake a procurement exercise under the Public Contracts Regulations 2015 (PCR). The use of a third-party framework is a permissible means of complying with the regulations. The SEC framework was let in accordance with the requirements of the PCR. The proposed procurement strategy is therefore compliant with the PCR.

This is a high value contract under the Council's contract Standing Orders. The use of a suitable third-party framework in accordance with its terms is a compliant means of procuring a contract of this value. The SEC framework is suitable for the purposes of this procurement for the reasons set out in this report and also allows for mini-competitions that helps drives value from the procurement process.

The recommended decision will be a key decision under the Council's Constitution and therefore needs to be included on the key decision list on the Council's website.

John Sharland, Assistant Director of Legal Services, 10 October 2024

DETAILED ANALYSIS

Background

1. In July 2020, H&F entered into a five-year term-service contract with Morgan Sindall for services relating to gas and ancillaries (e.g. water booster pumps, firefighting equipment, etc.), maintenance, repairs, upgrade, replacement and compliance. This contract ends on Thursday, 31 July 2025.
2. There is a provision within the contract to extend by up to two years in a one year plus one year phased extension approach.
3. Gas is currently the primary fuel for heating and hot water with over 11,000 domestic boilers and 38 communal boiler systems in housing. There is a

statutory annual requirement to undertake gas safety compliance checks and routine maintenance.

4. As a landlord, it a statutory requirement of the Council, to provide our residents' homes with efficient and effective heating and hot water system and that any fault is repaired effectively and quickly, that vulnerable residents are given priority, and that all residents are safe.
5. In addition, there are many other ancillary services provided by the contract including water pumps (enabling water provision in many blocks) and firefighting equipment etc. that must be checked, maintained, and repaired annually.
6. It is therefore essential to ensure that we always have suitable capacity and capability in place to deliver on these commissioning requirements.
7. It is common at the end of initial contract terms for contractors to seek to renegotiate before committing to the permissible contract extensions.
8. The consideration and negotiation of any proposed amendments presents negotiation and service continuity risk to the client. This is because if too much time is spent trying to reach a mutually acceptable agreement, then we lose the opportunity to source an alternative provider in a co-ordinated and timely manner that ensures quality and value for money outcomes.
9. The incumbent contractor has stated that they would require amendments to the contract to extend the contract term. The service cannot accept these amendments and therefore an extension past Thursday, 31 July 2025 is not an option.
10. We are therefore seeking approval to procure by mini competition using the compliant SEC framework, to ensure a contract is in place from Thursday, 31 July 2025, for a period of up to five years.

Reasons for Decision

11. There is the option to extend the current contract with the incumbent provider by one year plus one year, however, the contract does not provide stability or assurance as the contractor can walk away if their commercial terms are not met during the current negotiation window.
12. To ensure that there is continuity of this statutory service for the next five years and that there is competition to ensure value for money for our residents, it is proposed to reprocure the service.
13. The SEC Framework has a domestic and commercial heating lot that is designed for public sector housing organisations. The contractors on the lot mainly provide their services predominantly through direct provision rather than sub-contractors and are specialists in the field.
14. Utilising the framework and running a mini competition ensures value for money and quality objectives are achieved providing certainty for H&F.

15. H&F is committed to becoming carbon net zero by 2030. The primary fuel for housing's heating systems is gas and during the period of transition and move to alternatives the existing systems must be maintained and be compliant. Renewing the contract for five years provides this stability.

Contract Specifications Summary

16. At a minimum, the contract will mirror the existing requirement and includes safety compliance checks, regular servicing, maintenance, repairs and upgrades to all Domestic, Communal, District Heating and Mechanical Plant items in accordance with Gas Safety Regulations and Standards, SFG20 Statutory standards, relevant regulations and standards.
17. Performance of works will be managed and delivered to set Key Performance Indicators (KPIs) to maintain good quality and safe service levels throughout the entirety of the contract.
18. KPIs will include consistent and rapid response times, a high first-time fix rate, 100% emergency service response, high quality works, good resident satisfaction and 100% safety of works.
19. We will include ways to improve the energy efficiency of our assets, a move to carbon net zero alternatives, and minimisation of the environmental impact of repair and maintenance activities.
20. It is recommended that the contract is for a five-year term, providing financial stability and enabling best competitive price for both H&F and the contractor. A contract term of five years also provides stability whilst the pathway to alternative carbon free fuel sources is considered.

Procurement Route Analysis of Options

21. **Option 1: Use an existing contract, established by the Council to provide the supplies, services, and/or works (Not recommended)**
Our current term-service contract does allow for a 24-month extension. That said, this is not an option as the incumbent contractor has asked for significant amendments to the current contract terms and conditions. The service is not in a position to accept these amendments and therefore we need to source another contractor by July 2025.
22. **Option 2: Undertake a full regulated procurement process, advertised to the market (Not recommended)**
As time is limited (we have several months available to us) we have ruled out an open competition. This is because for an open competition to be utilized to full effect, we would need more time than is currently available.
23. **Option 3: Procure using a compliant framework or Dynamic Purchasing System (DPS), using a direct award (Not recommended)**

Given the value of this contract, we have ruled out any form of direct award. Although direct awards are quicker for sourcing provision, we would lose the opportunity to stimulate further quality and cost competition and therefore potentially limit value for money outcomes.

24. Option 4: Procure using a compliant framework or Dynamic Purchasing System (DPS), using a mini competition (Recommended)

On the above bases, we have therefore decided that a mini-competition is the most appropriate route as it allows for cost/quality competition, offers a degree of due-diligence through its pre-qualification of approved suppliers and offers a quicker competition process than an open competition.

25. The service has explored several frameworks and on evaluation have chosen the South East Consortium (SEC) Heating and Water Hygiene Framework – Lot 1 ‘domestic and commercial heating’.

26. This framework has been selected on the basis that it has 13 suppliers on it (therefore offering a good degree of competition) and because the framework specification scope mirrors the needs of the service.

27. Hammersmith and Fulham has also used the SEC many times and had positive experiences during these procurements. This experience therefore provides us with a level of assurance regarding the quality of framework management.

Market Analysis, Local Economy and Social Value

28. This is a well-established market with many large contractors and Small and Medium-sized Enterprises (SMEs). The delivery model and commercial pricing of this service is well-known due to historic commissioning of these services and available data for benchmarking.

29. For a contract of this value and complexity, the main contractor will need significant principal designer and technical ability. Therefore, it is understood that the contract is likely to be awarded to a large contractor.

30. However, we believe that there may be opportunities for our local SMEs to act as subcontractors to the main contractor in the limited situations whereby the main contractor needs to sub-contract.

Risk Assessment and Proposed Mitigations

Risk	Mitigation
Unable to mutually agree an extension with the incumbent contractor.	Undertake a procurement exercise to ensure we have a contractor to step in and ensure service continuity.

Risk	Mitigation
Negotiations become protracted and we lose our commercial leverage.	Undertake the procurement in a timely manner so we have options and ensure any future contract enables the Council to maintain a strong position for negotiation.
Negotiations become protracted. We lose the opportunity to undertake a procurement that has documentation which is fit for purpose in terms of ensuring value for money and quality outcomes.	We are proactively seeking procurement strategy approval so that we can make progress on these documents as soon as possible.
Timescales to be completed by August 2025 are strained.	The service is seeking additional urgent resource to support this project so that these timelines can be met.

Timetable

31. Estimated timetable of the competition process through to contact commencing.

Action	Date
Key Decision Entry (Strategy)	Tuesday, 15 October 2024
Contracts Assurance Board (Strategy)	Wednesday, 23 October 2024
Cabinet Sign off (Strategy)	Monday, 2 December 2024
Opportunity published on capital E-sourcing	Monday, 13 January 2025
Closing date for clarifications	Friday, 14 February 2025
Closing date for submissions	Monday, 17 February 2025
Evaluation of Mini Competition	24-Feb-2025 – 17-Mar-2025
Moderation of Mini Competition	24-Mar-2025 – 17-Apr-2025
Key Decision Entry (Award)	Monday, 17 April 2025
CAB (Award)	Wednesday, 23 April 2025
Cabinet Member (Award)	Thursday, 24 April 2025
Publish Contract Award Notice	May 2025
Contract engrossment	May 2025
Contract mobilisation and implementation	May 2025
Contract Commencement date	Friday, 1 August 2025

Selection and Award Criteria

32. The Framework has confirmed that clients can set their own Quality/Price percentage ratios. Therefore:
- We will apply 60:40 quality: price ratio.
 - Evaluation of the Commercial (price) envelope will be based on the providers supplying a price against a notional cost model. The cost model will factor in notional work order volumes for different repairs and servicing jobs and central overhead and profit costs.
 - A suite of questions will be devised and weighted as part of the technical (quality) envelope, to assess the suppliers' ability to provide a high-quality service to the Council's customers on its behalf.
 - Social value will be allocated an evaluation weighting of 20%. This will be split equally between the quantitative offer and the method statement delivery plan.

Contract Management

33. The contract will be managed by the Head of Mechanical and Electrical and team members through weekly operational management meetings, monthly contract meetings with senior management and annual contractual performance reviews.
34. KPIs will be established to manage safety and service performance levels for our residents, and ensure services are efficient, cost effective and provide good overall resident satisfaction.
- **Safety KPI:**
 - 100% Compliance - penalty per certificate which is down to contractor failure.
 - **Maintenance KPIs:**
 - Off heat management – Unscheduled down time – measuring the amount of time an asset is unexpectedly down.
 - Maintenance costs – monitoring costs associated per site with maintaining systems.
 - Mean time failures – calculates the average time between system failures.
 - **Repairs KPIs:**
 - 85% First time fix.
 - 100% of emergencies responded in time.
 - 90% of routine repairs responded in time, 7days - median time for routine repair to be completed, 20 days - average time to complete install.
 - No of properties over 3 appointments (multiple visits).
 - Number of properties with a 2nd order raised within a 20 day window (recall).

- **Customer Satisfaction KPI:**
 - 90% overall customer satisfaction.
 - **Social Value KPIs:**
 - For Social Value Commitment.
35. The Contract will include the yearly Consumer Price Index (CPI) increase, which understand to be necessary to maintain value, allow us to cover any increase in costs, and manage any financial risks elements. Allowance for this increase will promote fairness and mitigate risk to ensure our service level objectives are met.

Equality Implications

36. We will ask to see the contractor's equalities framework to ensure that they comply with our council's equality impact assessment. These requirements relate to equality and diversity as laid out in the Equality Act 2010 by ensuring that we eliminate discrimination, harassment and victimisation.
37. In developing this contract, we will carry out an assessment to inform our approach. We will advance equality of opportunity and foster good relations between all of residents, service users and staff.

Risk Management Implications

38. In addition to the risks defined above, it is advised that the contract is managed to ensure resident needs are protected through continual checks on delivery. This action will offset any environments risks and assist in preventing any resulting reputational and financial risks. Regular reports on delivery should be completed by the contractor and validated by LBH&F.

Jules Binney, Risk and Assurance Manager, 4 October 2024

Climate and Ecological Emergency Implications

39. The gas and ancillaries contract period covers a key period of transitioning from carbon-based fuels to carbon net zero. During this period, an emphasis will be placed on maintaining and servicing assets to operate at peak efficiency to minimise gas usage until they can be replaced with a suitable alternative.
40. More specifically, the below mentioned implementations will be put in place.
41. **Renewable Energy Use:** Transition to renewable energy sources where possible – The contractor must be pro-active in providing carbon reducing upgrades when working on ageing non-efficient stock. This will be in line with H&F vision to upgrade service and reduce our services impacting on climate change aspirations.

42. Communal sites will only be upgraded with renewable systems such as a part hybrid system or full heat pump/renewable energy solution.
43. **Stakeholder Engagement:** contractors will be able to evidence strong collaboration with all major stakeholders and have the required skillsets in place to demonstrate this 'finger on the pulse, can do' approach to achieving our Net Zero aspirations. All staff members will be trained in Air source/renewable energy systems to ensure the teams are regularly up to date with new technologies.
44. **Community Involvement:** the contractor should be able to provide positive engagement within the community to promote environmental awareness to our residents/stakeholders to eliminate 'fear factors' with in depth knowledge and through previous case studies/projects.
45. A triage process will be employed to replace critical parts rather than wholesale replacement with new gas boilers until a suitable alternative can be installed.
46. The use of cloud-based intelligence management systems will be rolled out across communal boilers that serve circa 1,500 residents to optimise operational efficiency and minimise gas usage during peak demand and switch off at times of low demand. The use of cloud-based intelligence will also be explored for domestic boilers to manage systems to optimal efficiency and minimal gas usage.
47. The contractor will be required to utilise an electric vehicle fleet to minimise its carbon footprint throughout the contract.

Hinesh Mehta, Assistant Director for Climate Change, 17 October 2024.

Procurement Implications

48. It is recommended the procuring officer works with the Procurement and Commercial team to ensure the call-off is undertaken compliantly and in accordance with the Public Contracts Regulations 2015, framework terms of use, and the Council's own Contract Standing Orders.

Chris Everett, Category Lead – Procurement and Commercial, 21 October 2024

Local Economy and Social Value Implications

49. This procurement will dedicate an overall 20% weighting to social value.
50. Of this 20% total weighting, 10% will be dedicated to the bidder's quantitative offer. This will be evidenced and evaluated via the Themes, Outcomes, and Measures (TOMs) social value matrix. The remaining 10% will be dedicated to the bidder's qualitative offer, for which evaluation will be by consideration of a method statement response. This will be the contractor's opportunity to provide

detailed evidence of how they will achieve the commitments set out in their quantitative offer.

51. At contract award stage, we will ensure that the successful contractor's social value commitment is included in the contract as a contractual obligation to be delivered upon.
52. Clauses will be inserted in relation to the monitoring and management of social value achievement.

Oliur Rahman, Head of Employment and Skills, 9 October 2024

Consultation

53. As this contract relates to a mixture of services and works where individual contributions are expected to exceed £100 in any one 12-month period for a service or £250 for works, this contract will be subject to S20 leaseholder consultation.
54. The projected 5-year contract duration and notional contract value of £30m will mean statutory consultation will need to be carried out under Schedule 2 of the Service Charges (Consultation Requirements) (England) Regulations 2003. A third stage of consultation will then be required under Schedule 3 before any qualifying major works are carried out.
55. The first two stages of consultation will need to be conducted either side of the procurement of the new contract. The Stage 1 Notice of Intention will include a description of why the new agreement is needed and include a description of the works and service it will provide for. It will give recipients an opportunity to submit observations but advise that alternative nominations will not be sought because Public Notice will be given. The Stage 2 Landlord's Proposal Notice will include the name of the proposed supplier, the total projected expenditure and a summary of rates, the duration, and a summary of the observations and replies received during the first phase.
56. A Stage 3 Section 20 Notice will be needed before any qualifying works are carried out to a building where an individual household's contribution could exceed £250. This will include a description of works and an estimate of the lessee's contribution.

Ciaran Maguire, Head of Home Ownership Services, 18 October 2024

LIST OF APPENDICES

None.