

Report of Housing Leeds

Report to Director of Environment and Housing

Date: 12th August 2014

Subject: Clyde's Biomass District Heating System

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Armley Ward	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number: A – Final Tender Evaluation Scores	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. To claim the full entitlement of ERDF funding allocated to this project, the council must have spent at least £1.4m on eligible capital costs by the end of [November 2014]. Installation work can continue past this point. Eligible capital costs include costs for buildings, plant and equipment bought and installed and for equipment bought but not installed.
2. A robust procurement exercise has been undertaken by Housing Leeds, in conjunction with the Public Private Partnerships and Procurement Unit (PPPU/PU), to procure a contractor via the Interim Green deal/ECO Framework
3. The tender was published via Yortender to the three contractors on the Framework.
4. All three contractors returned submissions; one contractor failed to meet the quality threshold for the tender and was disqualified from the tender process.

Recommendations

5. It is recommended that the Director of Environment and Housing approves the award of this contract of the Clyde's Biomass District Heating Scheme to Willmott Dixon.

1 Purpose of this report

- 1.1 To seek approval to appoint Willmott Dixon to deliver the Clyde's Biomass District Heating Scheme.
- 1.2 This recommendation is a result of a procurement exercise undertaken using the Interim Green Deal/ECO Framework via Yortender.

2 Background information

- 2.1 WNWH successfully applied £1,277,920 of ERDF funding for 2010-2014 to part fund the installation of community heating in the 264 dwellings in the Clyde's and Phil May Court and external wall insulation to 60 Wimpey No Fines dwellings in New Wortley. This funding was awarded as part of the region-wide Big Energy Upgrade programme.
- 2.2 To claim the full entitlement of ERDF funding allocated to this project, the council must have spent at least £1.4m on eligible capital costs by the end of [September 2014]. Installation work can continue past this point. Eligible capital costs include costs for buildings, plant and equipment bought and installed and for equipment bought but not installed. An outline feasibility report for the Biomass Community Heating System was completed by ARUP in January 2012 but was not acted upon. A small project group made up of technical officers from Housing Leeds, Environment Policy Team and the Energy Unit commissioned ARUP in September 2013 to turn this into a reference design and output specification that would enable us to procure a delivery partner. Approval under CPR 3.1.8 to procure the Clyde's Biomass District Heating Scheme via the Interim Green Deal/Eco Framework was given via DDN on 7th May 2014.
- 2.3 Prior consultation with bidders was undertaken by the project team, three meetings were held with the framework contractors to both solicit feedback about their interest and ability to tender and to seek their advice about the design/build and future operation of the heating system.
- 2.4 The Invitation to Tender was issued on 16th May 2014 with a return date of 25th June 2014. Following requests from all three bidders the tender period was extended by 1 week to the 2nd July 2014.
- 2.5 Bidders were invited to a mid-tender clarification session and a site visit. This provided an opportunity for bidders to clarify any areas of the tender documentation, enable them to effectively cost the tender submission and submit a quality response.
- 2.6 Clarification questions were received and responded to throughout the tender period and a log of responses was published on Yortender.
- 2.7 Tenders were assessed on the competitiveness of the pricing document and on a quality assessment. To enable a robust mechanism for evaluation of tenders, the tender was scored on a combination of price (40%) and quality (60%).

3 Main issues

- 3.1 The quality element of the submission was evaluated, using consensus scoring by representatives of Housing Leeds, Environmental Policy Team and PPPU/PU. Feedback was given back on the technical elements of the quality submissions via ARUP.
- 3.2 One of the three bidders did not meet the quality threshold of 360 marks out of a possible 600. This resulted in their bid being disqualified from the tender process.
- 3.3 The price element of the tender submissions was reviewed by Executive Technical Manager (PPP), Executive Accountant (PPPU) and a member of Environment Policy Team.
- 3.4 A summary of results of both the price submission and the quality scores are attached in appendix A. The contract sum was estimated to be around £2.3m, the winning bid was £2.56m.
- 3.5 With the inclusion of the ERDF and the level of Eco funding the winning bidder can bring to the project this brings the contract value to marginally greater than the original budget sum at an additional £73,292.49.

1 st Place Bid	£		LCC Pre Tender Estimate	£
Total cost -	£2,563,597.49		Total estimate	£2,301,258.00
Minus ERDF -	-£420,000		Minus ERDF	-£550,169.00
Minus ECO -	-£759,750		Minus ECO	-£440,534.00
Total cost to LCC	£1,383,847.49		Total estimate cost to LCC	£1,310,555.00

- 3.6 The total cost to the Council of £1,383,847.49 for the project will be covered by the HRA Capital Programme allocation for the scheme.
- 3.7 Following the evaluation of the submissions, a detailed breakdown on the pricing submitted by the 1st place bidder due to the cost being over the estimated contract sum. Following the receipt of the detailed price breakdown this was reviewed by ARUPs and they still believe that this price would deliver value for money to the Council.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Residents within Clyde Grange and Clyde Court along with the residents from Phil May Court have all been consulted on the scheme initially by means of a letter delivery and free post response form. In addition a consultation event was arranged with all residents and local Ward members were invited. Approximately 20 residents attended this event, response was positive and any small concerns have already been addressed.
- 4.1.2 A further series of consultation events were held on the 10th/11th and 12th February. The purpose of this consultation was to understand the energy usage of the customers and the price they are paying for this energy.

- 4.1.3 Local members have been kept informed of the proposed scheme and a team from Housing Leeds have presented the scheme to the local resident's forum, where local members were present on 17th March and again on 21st July 2014.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 An equality and impact screening report has been completed for this project.
- 4.2.2 The Clyde's and Phil May Court, located in Armley are in a CSCO area which means it is in the 15% most deprived LSOAs in the country. The electrical heating system currently used in the three schemes is expensive and residents are more likely to be in fuel poverty than the average for Leeds. As the aim is to achieve a 10% reduction in fuel bills in year 1, and regular review of the heat sale price to remain competitive, installation of a community heating system will reduce the number of residents living in fuel poverty as well as reducing carbon emissions.

4.3 Council policies and City Priorities

- 4.3.1 The Vision for Leeds 2011 to 2030 acknowledges that climate change is one of the three major challenges that have emerged since the last Vision was published in 2004 and has a specific aim to ensure that 'all homes are of a decent standard and everyone can afford to stay warm'.
- 4.3.2 The Vision is supported by the City Priority Plan 2011 to 2015, which brings together a number of key four-year priorities that will help us deliver the 2030 Vision. It is supported by five separate action plans that address the five key themes. Of these, two contain priorities which are directly relevant to this project:

Best City....for business:

- Support the sustainable growth of the Leeds' economy
- Improve the environment through reduced carbon emissions

Best City... to live:

- Maximise regeneration investment to increase housing choice and affordability within sustainable neighbourhoods.
- Enable growth of the City whilst protecting the distinctive green character of the city
- Improve housing conditions and energy efficiency.

4.4 Resources and value for money

- 4.4.1 It was estimated prior to procurement that the total capital cost for the full installation of the biomass heating system (construction of the energy centre, gas/biomass boilers and ancillary equipment, heat distribution and new wet central heating in the flats) including prelims, fees, other indirect costs and a risk budget of 20% would be £2.3m.

- 4.4.2 As stated in section 3.3 the price of the winning bid has a total capital cost of £2.56m. This is an increase in cost of £262,339.49. Within the winning bid the contractor has indicated that they can guarantee a higher level of ECO funding for the project than was originally estimated prior to tender. This brings an additional £319,216.00 funding to the project.
- 4.4.3 At the same time the amount of ERDF funding we expect to receive for the project has reduced due to the timescales around claiming the funding.
- 4.4.4 Funding for this scheme is complex and comes from a number of sources (ERDF, ECO Funding, HRA Capital, plus RHI and energy sales minus operating costs). The table below outlines the capital cost of the proposed scheme and the funding available

Total Capital Cost of developing the scheme	£2,563,597.49	
Funding Available		
ECO Grant	£759,750	Claimed on completion by contractor
ERDF Grant	£420,000	Claimed by HRA monthly in arrears, to be claimed before [November 2014]
HRA Capital Programme Allocation	£1,501,000.00	Not including any ERDF funding which has injected into HRA Capital Programme
Total Capital Funding Available	£2,680,750.00	

4.4.5 Revenue costs and income

Annual revenue costs and income		
Total income	£145,924	RHI (claimed quarterly) and monthly heat sales
Total O&M	£65,022	Fuel costs, billing, maintenance
Net annual operational surplus	£80,902	

20 year simple sum		
Costs	£1,383,847	
Operational surplus	£1,618,041	
Overall cost	-£234,194	estimate to make a net surplus of c£234k over 20 years.

4.4.6 A Contract Management Plan is being developed for the scheme which will be in place by the 20th September. Resources have been allocated within Housing Leeds to oversee the delivery of the project.

4.5 Legal Implications, Access to Information and Call In

4.5.1 Appendix A contains a full breakdown of tenderers quality scores and prices. This information is confidential.

4.6 Risk Management

4.6.2 This tender is being awarded on a JCT Design and Build Contract, this type of contract places the entire responsibility on the contractor for both the design and the build phase, in addition Willmott Dixon will operate the plant for a minimum of two years from build completion, before handing over to CEL for further operation.

4.6.3 There are risks inherent in the limited timescale to install the system and to maximise the various funding streams.

4.6.4 One of the highest risks to the project has been identified as a failure to deliver the predicted amount of ERDF funding and the limited timescale to deliver ERDF eligible works. Within the tender return, bidders were required to outline how they would maximise the amount of ERDF eligible spend they would be able to undertake in the time period available. Once the contract is awarded we would look to work the contractor to further maximise the ERDF eligible spend and discuss with the funder the ability to extend the funding deadline.

4.6.5 ECO rates have fluctuated dramatically due to changes brought in by the Autumn Statement. Our original business case was based on a market average of c£38/t but Willmott Dixon have offered to guarantee a significantly higher rate at £50/t. Additionally, their model forecasts to save around a third more carbon than our calculations. We therefore expect to attract around £310k more than anticipated.

4.6.6 Although some risks of further government policy changes remain until the end of 2014 when all the changes resulting from the review of ECO have been implemented, because the policy is nearing completion of a review, the likelihood of unexpected policy changes is actually low now. All bidders were aware of the policy position when tendering so Willmott Dixon should honour their rate, which is likely to be a forecast based on expected rates in mid-2015, rather than the very low rates available now. Within Willmott Dixon's documents they have clearly stated that they can guarantee a minimum rate of £50/t. The tender documents will form part of the contract with the contractor and this is clearly stated within the tender documents so they will be held to providing this rate as a minimum.

4.6.7 However, their forecast of additional carbon savings is subject to survey so may not materialise as expected. If they do not achieve the additional carbon savings predicted there will be a shortfall of £180k Eco funding.

4.6.8 RHI is regularly reviewed, though the rate is fixed plus RPI uplift once the heating system is commissioned and registered. Reviews are quarterly and rates may go up or down. For small biomass system, the rates were 7.9p kWh up to March

2012, then increased to 8.3p kWh up to July 2013, then increased again to 8.8p kWh up to July 2014 when they decreased to 8.4p kWh. The effect of all these changes is limited: currently we expect to receive £37,100pa from the RHI; under the most supportive regime this was £38,000 and under the worst £36,000.

- 4.6.9 It is impossible to rule out further policy changes so we will focus on getting the project completed as quickly as possible to minimise this risk.

5 Conclusions

- 5.1 A robust procurement exercise has been conducted by Housing Leeds in partnership with PPPU/PU using the Interim Green deal/Eco Framework.
- 5.2 Tenders were received from all three contractors on the framework. One contractor did not pass the quality threshold for the tender and therefore was disqualified from the process.
- 5.3 The project needs to go ahead both to benefit the residents of Clyde Court, Clyde Grange and Phil May Court and to fulfil our ERDF project commitments spend of which needs to take place before the end of [November 2014].
- 5.4 Installation of a biomass community heating system will reduce carbon emissions and remove people from fuel poverty, both priorities for Leeds City Council.

6 Recommendations

- 6.1 It is recommended that the Director of Environment and Housing approves the award of this contract for the Clyde's District Heating Scheme to Willmott Dixon

7 Background documents¹

- 7.1 Equality Impact Assessment
- 7.2 Clyde's Biomass Heating System Authority to Procure (CPR.3.1.8) DDN report

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.