

Report of the Director of Environment and Housing

Report to Executive Board

Date: 15th October 2014

Subject: Leeds City Region Green Deal and ECO scheme

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4(3) Appendix number: A	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. Leeds City Council's Public Private Partnerships Unit have been engaged, for and on behalf of Leeds City Region (LCR) to lead the procurement of a Green Deal and ECO scheme for all Local Authorities within the LCR boundary.
2. This collaborative procurement brings significant benefits, including:
 - Investment in homes and businesses;
 - Creation of local jobs, training opportunities and GVA growth;
 - Reduction in fuel poverty;
 - A good quality and value for money offer for residents;
 - A flexible approach, designed to respond to future changes in legislation, new funding regimes and new technologies.
3. Upon Contract award, a Framework Agreement will be established to run for four years. It is anticipated the Framework Agreement will be signed by the West Yorkshire Combined Authority (WYCA), with each Local Authority in the LCR (excluding Wakefield) to call-off from the Framework immediately. Wakefield have an existing contractual arrangement in place which prevents them from calling off at the outset, however this is due to expire in 2016 at which point Wakefield will review their position and call-off should they feel the Contract meets their needs.

4. Each Call-Off Contract will run until 2022 with regular performance reviews against KPIs and a break clause after 3 years. The terms of the Framework Agreement are incorporated into each Call-Off Contract, allowing the terms of the Framework to continue for the duration of the Call-Off Contracts.
5. The offer to the bidders is an exclusive endorsement from each Local Authority and the LEP for them to provide energy efficiency and renewable services, including Green Deal and Energy Company Obligation (ECO) services to private households within each Local Authority area.
6. By exclusively endorsing the product of the successful bidder, the Local Authorities are granting exclusive endorsement to the successful bidder to market to properties within the LEP/LCR geographical boundary. This means LCR Authorities shall not approve or advertise the Green Deal or ECO products of any other service provider or utility company and will signpost residents who make enquiries about energy efficiency and renewable products to this scheme. In doing so, the product of the successful bidder is being endorsed as a good quality, value for money offer to citizens. In return for exclusivity, the benefits that we will receive include development of a strong and consistent scheme identity, scheme marketing at no cost to the council, free management of customer enquiries from start to finish, guaranteed prices to customers, a commitment to invest ECO within the city region, a profit share arrangement, high quality standards and investment in local jobs, businesses and training opportunities.
7. There are some areas where Green Deal/ECO contracts already exist, so these are to be 'carved out' from the scheme as unavailable and recorded within the contractual documentation.
8. Most obligations contained in the Contract sit at Framework level, with obligations unique to the Authorities delegated through the Call-Off Contract. This is to ensure the LCR Authorities have collective power, while also making sure individual authority's interests are protected and they have a mechanism to hold the Contractor to account to deliver services in their area.
9. LCR Authorities have the option to use this contract on a non-exclusive basis for their social housing, corporate estate and to promote it to Small and Medium Enterprises (SME's) but are under no obligation to do so.
10. There is a Contract Management mechanism built in to ensure robust management of the contract, ensuring services are delivered and to generate some income for the Authorities.

Recommendations

1. Approve in principle the participation of Leeds City Council in the Leeds City Region Green Deal and ECO scheme, including support for the Framework and commitment to use the Call-Off Contract.
2. Delegate authority to the Director of Environment and Housing to agree the commercial terms of the Call-Off Contract and sign the Contract.

3. To delegate authority to the Director of Environment and Housing to take operational decisions including to attend the Home Energy Project Board (HEPB).
4. To monitor progress through the HEPB and receive annual progress reports.

1 Purpose of this report

- 1.1 To inform Executive Board of the progress made to date with the procurement of the LCR Green Deal and ECO scheme and to obtain approval to call off from the Framework Agreement.
- 1.2 To inform Executive Board of the benefits of the scheme to help in their decision making in respect of call-off.

2 Background information

- 2.1 This procurement follows the LCR wide Domestic Energy Efficiency Programme (DEEP) which procured a framework of partners in 2011 through which Local Authorities could provide domestic energy saving schemes. As DEEP was a success, Leeds City Council led the development of a business plan for the next phase of work. Based on this, LCR Leaders and Chief Executives agreed to continue the collective approach and to widen the scope of the scheme and change the focus of measures and installations to take advantage of ECO funding which commenced in late 2012. The Leaders reports can be found at www.leedscityregion.gov.uk¹
- 2.2 The purpose of the procurement is to establish a long-term partnership with a Green Deal Provider to generate 'green' investment in the LCR. This will include a range of energy saving technologies in residential properties (predominantly private sector) resulting in the creation of jobs and skills opportunities, a reduction in fuel poverty and lower carbon emissions.
- 2.3 The OJEU notice to commence procurement was published on 26 July 2013 and its scope was wide enough for social housing and non-domestic opportunities to also benefit.
- 2.4 Leeds City Council agreed at Executive Board in December 2012² to act as the anchor authority for the procurement, with a commitment to lead the procurement and deliver energy efficiency improvements to at least 6,000 homes. The intention was also for Leeds to sign the Framework Agreement on behalf of the LCR, to allow other LCR authorities to call-off work from the Framework. However, as the West Yorkshire Combined Authority (WYCA) was created on 1st April 2014 and has legal status, the OJEU can be amended to allow WYCA to sign the Framework Agreement, transferring the risk from Leeds to WYCA. All involved parties are currently undertaking due-diligence in this regard.
- 2.5 This is an unusual procurement in that the council is not directly purchasing anything. Instead, it is a competition to obtain permission to use Local Authority branding, access to customer/stock data and marketing channels for the length of

¹ 1st July 2014, LCR Green Deal Scheme

11th April 2013, LCR Green Deal Scheme

7th February 2013, LCR Green Deal Scheme

6th December 2012, LCR Green Deal Business Case

2nd February 2012, Options for Delivering and Financing the Green Deal

² Reaffirmed by Executive Board in March and October 2013

the Call-Off Contract. This provides value to the market as they will be better placed than competitors to discharge ECO commitments and provides value to the council as we will have a long-term partner with KPIs to reach for jobs, skills, fuel poverty and houses improved.

- 2.6 ECO places legal obligations on the larger energy suppliers to deliver energy efficiency improvements to domestic energy users. ECO subsidies provided to householders to make these improvements enable the energy companies to discharge their commitments under the Obligation.
- 2.7 The Green Deal supports ECO. It is designed to help people to afford these improvements by allowing them to pay capital costs through savings made on their energy bills rather, than upfront. Customers have the option to use other sources of finance to fund measures (personal loans, savings, etc) and are under no obligation to take out a Green Deal loan.

3 Main issues

- 3.1 During the procurement process there have been some major changes in Government policy, notably a significant:
- Reduction in the value of ECO;
 - Temporary introduction of cash back incentives³ (Green Deal Home Improvement Fund).
- 3.2 This has changed the likely mix of measures to be installed and altered the potential value of the contract to bidders in the short-term. However, these issues have been discussed in detail with the bidders and the potential impacts have been reflected in the procurement process. The latest position regarding contract value and the number and mix of improvements to install is shown in exempt appendix A.
- 3.3 Key Performance Indicators (KPIs) have been developed to manage the performance of the contract with input from specialist officers in each Authority. The KPIs cover five key areas:
- Marketing Activity;
 - Customer Satisfaction;
 - Economic and Social Impact;
 - Information Management/Business Systems;
 - Finance.
- 3.4 All of the targets are set at and monitored at a collective LCR level, except the following targets:

³ The cash back allocation of £120m for 2014/15 was committed within 6 weeks from June 9th to July 24th. The next £120m allocation is due to be released on the 1st April 2015.

- Number of properties where Green Deal Measures and ECO measures have been installed;
- Number of Green Deal Measures and ECO Measures installed.

- 3.5 This ensures that the Contractor is obliged to deliver services upon contract award and that services are fairly distributed in each geographical location.
- 3.6 The management information that feeds into the collective targets will be broken down by Local Authority area, allowing each council to understand how the contract is performing in their area. The targets agreed are featured in exempt appendix A.
- 3.7 Ultimately, failure to meet any of the KPIs could result in termination of the contract. Achievement against the KPIs will be a key consideration when the break clause is reached after 3 years.
- 3.8 The procurement is intended to deliver outcomes in respect of social impact through the creation of job and apprentice opportunities. The table below details the minimum targets for social impact across the LCR, over the lifetime of the contract:

	Total
Education site visits/workshops	10
Community site visits/workshops	12
Work experience - p/w	100
Apprentices existing - p/w	M
Apprentices existing - no.	M
Apprentices project initiated - p/w	780
Apprentices project initiated - no.	10
Short Courses	M
Entry Level 1 Qualifications	100
Level 2 Qualifications	10
Higher Level 3+ Qualifications	M
Employment (local)	20
Employment (LCR)	98
Employment (Other)	6
Employment safeguarded	41
Business event held	12
Social Enterprise engaged	1
LCR businesses engaged	M
Y&H businesses engaged	M

p/w = person week

*M = Monitored, no specific target.

- 3.9 As part of the evaluation process bidders have detailed how they will meet or exceed the targets stipulated. They have also provided a rationale for how they will use new appointments to fill skill gaps.
- 3.10 Detailed and robust marketing and mobilisation plans have been produced to ensure customer take up. These will feed into the overall targets we have set.
- 3.11 The procurement team has appointed technical advisors to provide a benchmark for pricing to ensure that a competitive deal is secured for LCR residents. The prices for measures will be fixed for all residents based on a shopping basket of archetypes that the Contractor will guarantee (subject to bi-annual benchmarking). This means there will be equality of offer for all residents.
- 3.12 Exclusivity is not being granted for social housing or non-domestic/Small Medium Enterprise (SME) opportunities. However, the Authorities that have Council housing stock can use the Contract to request pricing for any energy efficiency or renewables projects they would like to consider. This approach means that Authorities can avoid entering into lengthy (and costly) procurements, and deliver local priorities in a timely fashion.
- 3.13 It is also proposed that the LCR Authorities will endorse the Provider's non-domestic/SME proposition on a non-exclusive basis if, after receiving advance notification of the offer, Authorities feel it represents value for money.
- 3.14 We have set a minimum threshold for an income share of £60k per annum to fund the position of a Contract Manager, with additional fees to be shared among the participating authorities based on revenue. The proposal is detailed in confidential appendix A.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Leaseholder consultation has begun with a Notice of Intention issued to all leaseholders in June 2013. A consultation event was held to respond to questions, however this was not attended by any leaseholders and there was little feedback received by the Home Ownership team. A second round of consultation is to take place during the Invitation to Submit Refined Solutions (ISRS) stage of the procurement. It is anticipated the second stage will start on 15 October and will last for 37 days. This means Contract Award can take place in November and falls outside of the Approvals processes for all participating Authorities.
- 4.1.2 Market testing was carried out with contractors to better understand the scale of the opportunity and market appetite. Response to the market test was positive with potential providers indicating they had confidence in their ability to achieve the ambitions of the LCR Authorities.
- 4.1.3 Although the procurement has been led by the Public Private Partnerships Unit in Leeds City Council, all Authorities have had the opportunity to engage in the process through evaluation of bids, attending dialogue meetings and comment on

documents. LCR have regularly reported back to Leaders, Chief Execs and Directors of Development. The Project Board is also formed of representatives from across the LCR partner Authorities. All participating Authorities have contributed to the procurement costs and signed a Memorandum of Understanding to govern the process up to the award of the Contract.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The original December 2012 report undertook equality screening and did not identify any significant negative issues. Instead, it indicated that by accessing ECO the programme will help to lift deprived individuals and communities out of fuel poverty, with consequent health and social benefits.
- 4.2.2 It also concluded that the Green Deal will target help at properties that have been excluded from previous incentive schemes. The insulation measures (either loan or grant funded) will help residents to save energy and money and make their homes warmer and healthier. This will help to ensure that an offer for hard-to-treat properties is available to all over the longer term, to ensure equality of opportunity.
- 4.2.3 The EIDC screening has been reviewed and updated following government policy changes and the consequent redesign of the programme and the fundamental findings remain the same. Although the focus of ECO is no longer primarily on solid wall properties that have been missed out before, the council can still target marketing at more vulnerable people to ensure that the programme tackles fuel poverty.

4.3 Council policies and City Priorities

- 4.3.1 The focus of this initiative directly contributes to the commitments detailed by the Council in the City Priority Plan to 'Improve the environment through reduced carbon emissions' and 'Improve housing conditions and energy efficiency'. The scheme supports the aims and objectives of the Council's Environmental Policy and Climate Change Strategy.

4.4 Resources and value for money

- 4.4.1 All LCR Local Authorities have contributed financially to the procurement process which, due to the complexity of the project, was via competitive dialogue. The competitive bid process with built in price benchmarking (including through the life of the Contract) will ensure that the project delivers value for money.
- 4.4.2 There is no requirement for the council to contribute further revenue or capital costs, with the contractor taking responsibility for marketing and lead generation. The exception for Leeds is that the council has committed to using some of the Housing Leeds stock as a 'reference scheme' which we will seek to fund from the Housing Revenue Account early in the contract. Housing Leeds has a maximum budget of £600k over 2 years for phase 1, to deliver external wall insulation to 117 council homes. The final costs will be determined by the tender and we require the contractor to bring funding from ECO or other sources to reduce the cost to us.

- 4.4.3 The Contract value should generate tens of millions of new investment into the LCR/LEP over the first three years with potential to generate fee income for each participating authority.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Appendix A is recommended to be exempt from publication under the provisions of Access to Information Procedure Rule 10.4(3) as it contains commercially sensitive information extracted from bids received by the council, publication of which would prejudice the commercial interests of the bidders involved. Publication of this information would also damage the council's interests as it would decrease bidders' confidence in the council's procurement processes. It is therefore recommended that in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 4.5.2 The dialogue process has had a specific workstream for the legal documentation to be developed in conjunction with bidders, the procurement team, lawyers from each Local Authority and the Combined Authority. Bidders have produced mark-ups of both the Framework Agreement and Call-Off contract. At each stage the mark-ups have been shared with LCR lawyers for comment and amendment for feedback to bidders to enable negotiation of a strong commercial position for all Authorities. Although the process has been labour intensive, it has been necessary to ensure all parties are comfortable with the content of the drafting to allow Contract Award and Signature to happen without incident.
- 4.5.3 As a decision of the Executive Board, there is an associated Call In period of 5 clear working days.
- 4.5.4 Where council house retrofits are undertaken as part of the Contract, some leaseholders may also be affected. It is important for the Leaseholder consultation process to be conducted correctly, ensuring adherence to relevant legislation to allow the Authority to claim back any costs where works are required to take place on Leaseholder premises.

4.6 Risk Management

- 4.6.1 The programme has maintained an active risk register which has formed a key part of the dialogue with bidders, to ensure that risks are mitigated and transferred to the most appropriate party. The most significant risks are lack of customer demand, changing government policy/funding regimes and technical problems/customer service problems.
- 4.6.2 Risks will continue to be monitored and updated throughout programme delivery.

5 Conclusions

- 5.1 The collaborative procurement of a long-term partnership brings about big benefits for the Leeds City Region, but also brings with it some challenges. The principles benefits that this contract will bring include:

- Investing in local homes and businesses;
- Creating local jobs and training opportunities;
- GVA growth;
- Reduction in fuel poverty;
- A good quality and value for money offer for residents;
- Standardised range of energy efficiency improvements and efficient processes, regardless of where residents live;
- A flexible approach, designed to respond to future changes in legislation, new funding regimes and new technologies.

5.2 For the scheme to be a success it is important all participating Authorities support the Provider to deliver.

6 Recommendations

- 6.1 Approve in principle the participation of Leeds City Council in the Leeds City Region Green Deal and ECO scheme, including support for the Framework and commitment to use the Call-Off Contract.
- 6.2 Delegate authority to the Director of Environment and Housing to agree the commercial terms of the Call-Off Contract and sign the Contract.
- 6.3 To delegate authority to the Director of Environment and Housing to take operational decisions including to attend the Home Energy Project Board (HEPB).
- 6.4 To monitor progress through the HEPB and receive annual progress reports.

7 Background documents⁴

- 7.1 Leeds City Region Green Deal and ECO Framework Agreement.
- 7.2 Call Off Contract in Relation to the Leeds City Region Green Deal and ECO project.
- 7.3 Both of these contract documents are confidential and terms are being negotiated with the bidder as part of the tender process. This Background Document is therefore designated as exempt from publication under Access to Information Procedure Rule 10.4(3). Executive Board members can request confidential copies by contacting the Senior Programme Leader in Sustainable Energy and Climate Change.

⁴ 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.