

**Report of Head of Strategy and Development, Housing Leeds and Executive Programme Manager, PPPU, Resources and Housing**

**Report to Director of Resources and Housing**

**Date: 28<sup>th</sup> July 2017**

**Subject: Limited scope of works for Housing DHN**

Are specific electoral wards affected? If yes, 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 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: 10.4.3 Appendix 1 to this report has been marked as exempt under Access to Information Procedure Rules 10.4 (3) on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) which, if disclosed to the public, would, or would be likely to prejudice the commercial interests of that person or of the Council. The information is exempt if and for so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. In this case the report author considers that it is in the public interest to maintain the exemption.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**Summary of main issues**

1. On the 17th July, Executive Board granted conditional approval for the Spine and Housing DHNs.
2. To reduce risks, one of the decisions was that the Housing DHN enter into a contract with Vital Energi Utilities Ltd for a maximum sum of £2m for a limited scope of works and services prior to the Spine DHN conditions being satisfied.
3. Vital Energi have proposed a series of works that can be undertaken as such and these have been reviewed by members of the project team from PPPU and Housing Leeds. It is therefore recommended to accept this proposal and issue an instruction to Vital Energi to proceed to ensure that progress is made on the Housing DHN.
4. As the conditions precedent have not been met, instructions also need to be issued to Vital to suspend the Housing DHN O&M contract and the Spine DHN D&B and O&M contracts.

**Recommendations**

1. To instruct Vital Energi to undertake a limited scope of work on the Housing DHN to a total value of £1,742,827.50.
2. To instruct Vital Energi to suspend performance of the services under the Housing DHN O&M contract (clause J1.2 (b)).
3. To instruct Vital Energi to suspend performance of the works under the Spine DHN D&B contract (clause 5.2 (b) of form of agreement).
4. To instruct Vital Energi to suspend performance of the services under the Spine DHN O&M contract (clause J1.2 (b)).

## **1. Purpose of this report**

- 1.1 To seek approval from the Director of Resources and Housing to instruct Vital Energi to undertake a limited scope of work to progress the Housing DHN, prior to Spine final approval.

## **2. Background information**

- 2.1 On the 17<sup>th</sup> July 2017, Executive Board granted conditional approval for the Spine and Housing DHNs.
- 2.2 One of the conditions is that a grant from the West Yorkshire Combined Authority (WYCA) grant is awarded prior to the Spine DHN commencing.
- 2.3 Regardless of heat source, the Council intends to install DH to all 1,983 flats in the Housing DHN site in order to ensure that tenants benefit from lower cost and higher quality heating. As the Housing DHN is fully funded by a combination of HRA budgets and time limited ERDF funds, it is possible to start to undertake non-abortive work on this project, prior to the Spine DHN receiving full approval.
- 2.4 Executive Board therefore approved the recommendation to:
- 2.5 “Delegate authority to the Director of Resources and Housing to enter into a contract with Vital Energi Utilities Ltd for a maximum sum of £2m for a limited scope of works and services for the housing DHN”.

## **3. Main issues**

- 3.1 Vital Energi proposed a series of non-abortive works that can be undertaken on the Housing DHN, prior to Spine final approval. These have been based on the programme and activity schedule submitted as part of their recent tender and forming part of their contract.
- 3.2 These have been reviewed by members of the project team from PPPU and Housing Leeds and, following a period of challenge, a final scope has been agreed. The project team has satisfied itself that the agreed works are required regardless of the heat source. Should the Spine DHN not proceed for whatever reason, the conditionality clause 5.3 (c) allows the Council to proceed with just the Housing DHN.
- 3.3 Should clause 5.3 (c) be used, the Council will work with Vital to ensure that a standalone DHN delivers all of the benefits to tenants and with ESIF to ensure that the benefits are delivered in a manner that meets ESIF requirements.
- 3.4 Although detailed design has not been undertaken for this eventuality, options have been discussed with Vital and we know that a standalone DHN is viable. The simplest option would be to provide the same equipment within the energy centres and operate the DHN using gas boilers. Whilst cheap, this would not be low carbon, so if this option will be required, the Council and Vital will explore other technologies (particularly CHP and biomass) in order to optimise the solution from a carbon and fuel poverty perspective.
- 3.5 The agreed limited scope of works is for a total value of £1,742,827.50 and covers the following areas:

<b>Activity Description</b>	<b>Why Non-Abortive</b>
Minor works in existing energy centres	The existing networks at Ebor Gardens and Saxton Gardens must be hydraulically separate to the new system, regardless of heat source, to avoid potential contamination issues.
Heat network surveys, design and pre construction preparatory work	The network design and location will be identical regardless of heat source.
Riser and lateral design and sub-contractor procurement	The position and design of the risers and laterals will be identical regardless of heat source.
Flat central heating system design and sub-contractor/equipment supplier procurement	The position and design of the central heating systems will be identical regardless of heat source.
Prelims and indirect construction costs (including engagement, site set up, surveys, and construction management)	These are essential works to allow the above design work to happen effectively and to prepare for the installation phase.

- 3.6 A full breakdown is provided in confidential appendix 1.
- 3.7 The Council believes that the benefits of proceeding now with a limited scope of works outweigh the risks. The project is fully funded by the HRA and ESIF and only by starting the contract now can the Council be confident of maintaining the build programme and therefore the ability to claim the full ESIF grant.
- 3.8 As the remainder of the conditions precedent have not been met, it is necessary to formally instruct Vital Energi to suspend work on all other contracts, namely:
- 3.8.1 suspend performance of the services under the Housing DHN O&M contract (clause J1.2 (b)).
- 3.8.2 suspend performance of the works under the Spine DHN D&B contract (clause 5.2 (b) of form of agreement).
- 3.8.3 suspend performance of the services under the Spine DHN O&M contract (clause J1.2 (b)).

## **4. Corporate considerations**

### **4.1 Consultation and engagement**

- 4.1.1 Extensive consultation with Members and officers was undertaken prior to presenting the Executive Board report. As this report is designed to enact a recommendation from that report, further consultation is not required.
- 4.1.2 Vital Energi will undertake consultation activities to ensure local Ward Members, the general public and other relevant stakeholders are involved and informed prior to starting any work that will impact on the public.

## **4.2 Equality and diversity / cohesion and integration**

4.2.1 As highlighted in the Executive Board report, the DHN will have a positive impact on equality as it will support the compassionate city equality objective by reducing fuel poverty, helping to increase life expectancy, improving mental health and wellbeing and reducing health inequalities.

## **4.3 Council policies and best council plan**

4.3.1 The unique opportunity to construct a DHN supports the aspirations set out in the Best Council Plan 2015-20 and the overall vision of becoming the best city in the UK. In particular, the project helps deliver the councils Low Carbon priorities, which were declared for 2017/18 as:

- Reducing emissions;
- Tackling fuel poverty, and
- Delivering efficient and secure energy.

## **4.4 Resources and value for money**

4.4.1 The works have already been tested for value for money via a competitive tender exercise and will be at the same cost as the agreed activity schedule.

## **4.5 Legal implications, access to information, and call-in**

4.5.1 The information contained within confidential Appendix 1 to this report is designated as exempt from publication in accordance with paragraph 10.4(3) of the Access to Information Rules and Schedule 12A(3) of the Local Government Act 1972 on the grounds that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The appendix contains detailed pricing information underpinning the contractor's tender, which if disclosed could damage the commercial interests of the contractor. Therefore it is considered that the public interest in maintaining the content of confidential Appendix 1 as exempt outweighs the public interest in disclosing the information.

4.5.2 As this is a consequential decision to a key decision taken by Executive Board on the 17<sup>th</sup> July, this is a Significant Operational Decision.

4.5.3 The conditionality drafting in the Housing D&B Contract (form of agreement) is being used to limit the scope and value of work, as agreed by Executive Board.

4.5.4 There are no significant legal issues.

4.5.5 This decision is not open to call in.

## **4.6 Risk management**

4.6.1 The most significant risks with the Housing DH programme are:

4.6.1.1 Delays that will impact on the delivery programme in Lincoln Green and hence risk claiming ERDF funding;

- 4.6.1.2 The Spine DHN ultimately not securing approval to be built in October 2017 and necessitating a redesign and reprofile of outputs.
- 4.6.2 The proposed approach of commencing work, but only of works that will be required regardless of whether the Housing DHN ultimately connects to the Spine DHN, is the best way to balance these two risks.

## **5. Conclusions**

- 5.1 This report identifies a limited scope of works to be undertaken on the Housing DHN as required by the 17<sup>th</sup> July Executive Board. These have been assessed by the project team as being works required by the Housing DHN regardless of whether it ultimately connects to the Spine DHN and therefore suitable to proceed with. The remainder of the contracts will be suspended.

## **6. Recommendations**

- 6.1 To instruct Vital Energi to undertake a limited scope of work on the Housing DHN to a total value of £1,742,827.50.
- 6.2 To instruct Vital Energi to suspend performance of the services under the Housing DHN O&M contract (clause J1.2 (b)).
- 6.3 To instruct Vital Energi to suspend performance of the works under the Spine DHN D&B contract (clause 5.2 (b) of form of agreement).
- 6.4 To instruct Vital Energi to suspend performance of the services under the Spine DHN O&M contract (clause J1.2 (b)).

## **7. Background documents<sup>1</sup>**

- 7.1 None

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<sup>1</sup> 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.