

March 2024 Executive Board – District Heating Update

Appendix 3 – Procurement Strategy for South Bank

The Commercialisation of the South Bank scheme will require external support, to develop the technical, commercial, financial, and legal workstreams of the project, bringing the business case to a position of maturity based on which Executive Board can determine if it will recommend proceeding with the construction of the scheme. The council will be running two procurement exercises to appoint this support.

AECOM Ltd Procurement

Part of the commercialisation funding secured from the Green Heat Network Fund (GHNF) is to procure technical, financial, commercial, and legal contractors to finalise project development prior to works commencing. The Detailed Project Development (DPD) stage of the study saw a contract awarded to AECOM Ltd to lead the technical workstream, whilst subcontracting the financial and commercial workstreams. This has proven successful with all project milestones delivered to specification.

The intention of the project team is to utilise the same procurement approach for the commercialisation stage of the project, as was used for DPD: a procurement exercise to direct award the technical, financial and commercial workstreams to AECOM Ltd.

The procurement will utilise Lot 3 of the Crown Commercial Services framework for Construction Professional Services (RM6165) to make a direct award for the works to AECOM Ltd.

The project team have been provided with a list of frameworks under which the works could be direct awarded to AECOM Ltd. The team recommends awarding under the CCS framework based on three factors:

- a) The fees for the CCS framework are 1% of the project value, the lowest fee across all frameworks available for this type of appointment. Even a 1% uplift on the fee would result in a c£8k additional cost to the council for this contract.
- b) The CCS framework is the most straightforward framework to award under with minimal involvement from CCS in the process. The council can utilise its own tender documentation and run the procurement itself via Yortender in the usual way. The framework is already on the approved list of frameworks by the Procurement Legal team, meaning no approvals process will be needed with Procurement Legal other than for the contract itself as is standard procedure for all procurements.
- c) Tied to the point above, the previous appointment of AECOM Ltd was carried out under the same framework, meaning that the project team are familiar with the process, streamlining the procurement process as far as possible.

The reasons the project team are recommending a direct award to AECOM Ltd for the works are:

- a) AECOM Ltd has already been successful in an open tender exercise for the Techno-Economic Feasibility (TEF) study through which 8 tenderers were invited to submit bids. AECOM Ltd's submission was the strongest on both price and quality, and with regard to the latter by a considerable distance.

b) AECOM Ltd's work on both the TEF and DPD has been exemplary thus far. The outputs of the project specified at both tender stages have been met and exceeded and have put the council in a strong position to take the project through to realisation.

c) The work AECOM Ltd has already completed means that they have the knowledge required of the project to hit the ground running, reducing timescales associated with onboarding a new contractor, and making best use of already established stakeholder relationships.

d) An open tender exercise will come with a significant impact on project timescales. The programme for the project is incredibly tight as we seek to start construction in mid-2025. Commencing commercialisation in a timely manner is critical for hitting this deadline.

It is intended that initially, £700k of Commercialisation funding is used to cover the costs of the AECOM Ltd contract, as 100% grant funding. There will be no spend above this limit until such a time that the project has developed to a stage that a reasonable level of certainty has been gained on: the customers who will connect to take heat from the network, the heat sources that will supply heat into the network, and that there is a confirmed location for an energy centre to be sited on. Any further spend that will incur direct council costs would be subject to further approval by the Director for Communities, Housing and Environment.

The proposed methodology for the procurement of AECOM Ltd uses the approach of splitting price and quality, using minimum score thresholds to score quality and discounting tenders which fail to meet the required threshold for any single method statement submission. It should be noted by the decision maker that weightings are not being applied to the quality criteria. This is due to only one supplier being invited to tender as such, suppliers do not need to be scored against each other

The council standard approach is to separate price and quality. This approach cannot be used due to the Framework terms and as such, the price and quality combined approach will be used.

The council intend to award the contract as an NEC Option G Contract. This will mean the council is not committed to any minimum spend under the contract. Instead, each activity will be priced and included in the contract as optional for the council to draw down on at an appropriate time, allowing greater control of spend to be incurred.

It is recommended that this procurement commences following Executive Board approval for the procurement and injection of capital into the project. As the procurement is a direct award, Executive Board are also recommended to provide authority to award the contract, should AECOM Ltd pass the required price and quality requirements of the exercise as assessed by the evaluation panel.

The decision to approve the pricing and quality methodology, and to award the contract should AECOM Ltd pass the relevant quality and price criteria is delegated to the Director for Communities, Housing and Environment.

Legal procurement

In addition to the AECOM Ltd appointment, a legal firm will be procured to lead the legal workstream of the project and provide ad-hoc advice as and when required by the wider project team of LCC and AECOM Ltd. The maximum value of this contract will be £150,000 and an open tender exercise will be undertaken for the appointment.

It is recommended that Executive Board approve the commencement of this procurement exercise utilising the capital injection of the commercialisation funding from GHNF to fund the contract, and

delegate the decision to award the contract to the Director for Communities, Housing and Environment.