

Report of **Head of Strategy & Investment**
Report to **Director of Resources and Housing**
Date: 28 May 2020
Subject: **Approval to award a contract to replace heating & hot water systems in The Heights East & The Heights West, with a ground source heat pump system (GSHP).**

Are specific electoral wards affected? If yes, name(s) of ward(s): Farnley & Wortley	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Has consultation been carried out?	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
Will the decision be open 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: 1	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary

1. Main issues

- As part of the council's plans to address fuel poverty, the climate emergency and to support the Affordable Warmth Partnership, works are planned to replace the existing electric storage heating and hot water systems in two council high rise blocks. These are The Heights East and The Heights West in Wortley. The current heating systems in these blocks are near or at the end of their life, and their replacement provides an opportunity to pilot renewable technology, Ground Source Heat Pumps (GSHP) not previously used in Leeds.
- A decision was taken by the Director of Resources & Housing in early May 2020 to approve the procurement strategy in relation to this project and authority to spend; this contract award is a direct result of that key decision.
- In line with the approved procurement strategy a tender process has taken place using the Procurement for Housing Framework. This has resulted in the receipt of a tender from Cenergist Ltd, that will offer both the best opportunity both in terms of price, cost certainty and to achieve the timescales of the programme.
- The contract value for the works is £1,844,845.28. Works are planned to start in summer 2020 and be completed early 2021 with an expected site duration of nine months.

- The works allow for continued Health and Safety and risk management through site works duration, particularly in respect of challenges presented by Coronavirus (further information can be found in section 4.6 of this report).

2. Best Council Plan Implications (see the [latest version of the Best Council Plan](#))

- The planned works will contribute to the Best Council Plan outcomes of tackling poverty, and the climate emergency by improving energy performance in homes, contribute to reducing city wide carbon emissions and supporting residents to live in good quality, affordable homes.

3. Resource Implications

- Council funding for the works is via the Housing Capital Refurbishment Programme from the Housing Revenue Account (HRA) all costs of the contract will fall into financial year 2020/21.
- Due diligence has been undertaken in connection with the contractor recommended for the contract award. This includes technical and financial checks both linked to the approved framework and with regards to their financial position in regards to the delivery of a contract of this size. All these checks have identified no issues.
- An application for revenue funding under the Renewable Heating Incentive is planned for approval in April 2021; if successful the scheme would be cost neutral in 18.5 years' time.
- The estimated annual service and maintenance costs will be reduced by estimated £5.5k per flat by using the new GSHP system over a 40 year expected life and maintenance costs.

Recommendations

The Director of Resources and Housing is requested to:

- a) Approve the award of a contract to Cenergist Ltd to undertake the installation of Ground Source Heat Pumps for a contract sum of £1,844,845.28 to two high rise blocks at The Heights East and The Heights West.
- b) Note that this follows a call-off from the Procurement for Housing (PFH) framework and that it is proposed that these works will be completed in a 9 month period between June 2020 and February 2021.

1. Purpose of this report

- 1.1 The purpose of this report is to report the results of the tender evaluation process and seek approval to award a contract to Cenergist Ltd to deliver the specialist GSHP works in the sum of £1,844,845.28.

2. Background information

- 2.1 Leeds City Council has 118 high rise housing blocks (of 5 stories and above, including private finance initiative managed stock). Up to 40 blocks have been identified as needing new heating solutions to improve energy efficiency for residents by replacing existing old storage heating & hot water systems.

- 2.2 The Heights East and The Heights West are two of these 40 blocks, and identified for a pilot scheme. They are 10 storeys high with 60 flats in each block.
- 2.3 The aim of the pilot is to benefit residents by reducing their fuel costs and improving their ease and ability to control heating; and to reduce carbon emissions.
- 2.4 A key decision was taken on 14 May 2020 by the Director of Resources & Housing to approve the procurement of this pilot scheme and to agree authority to spend.

3. Main issues

- 3.1 The scheme includes the contractor's full system design, delivery and installation of the GSHP system to the blocks, including new piling holes in surrounding grassland, with connecting pipework to the blocks and individual flats, and the replacement heating and hot water system in each flat.
- 3.2 Government funding is available to encourage the take up of using renewable energy through a revenue incentive, but requires a successful application to be submitted in spring 2020 as the current scheme closes in April 2021.
- 3.3 This has been procured via a direct call-off from the Procurement for Housing framework (PFH). This framework has been vetted and approved by the Council's legal team in Procurement and Commercial Services and organisations on the framework through an OJEU compliant competitive tendering exercise and have been deemed as best value. Financial due diligence, technical capacity, and ability to deliver to the required timescale has also been considered as part of the process.
- 3.4 On this occasion the Procurement for Housing framework (PFH) contractor Cenergist Ltd are to be used, having identified no issues and ability to provide these priority works on time, to budget, to a high standard of quality and provide value for money.
- 3.5 The construction works are planned to start on site from June 2020 and be completed by in February 2021.
- 3.6 A Contract Management Plan is now being developed and will be ready for implementation for the site start in June 2020.

Post Contract Completion

- 3.7 Following completion of the construction works on site in February 2021 and in order to support the outcome and analysis of the pilot scheme, by August 2021 it is proposed that Leeds Beckett University Sustainable team will conclude a comparative analysis results exercise between the existing heating versus the new heating system.
- 3.8 Monitoring work will continue after the installation of the new GSHP heating system, to enable a comparison of heating performance and resident feedback. It is anticipated that the final analysis of this will be completed by summer 2021 and provide evidence towards decision making for further blocks also highlighted as in need of heating upgrade.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The Key Decision to deliver this scheme was approved in early May 2020 by the Director of Resources & Housing.
- 4.1.2 The procurement has been undertaken by the engagement of the Strategy and Investment team including technical and Quantity surveying officers within the planned works and project team who have been involved throughout the process. Advice has been secured from Procurement, Commercial and Legal Services, all of which have reviewed all proposals, verified and supported the planned decisions. The tender evaluation and tender price submissions for completeness and correctness has been completed by the Commercial QS team.
- 4.1.3 All communications relevant to this contract are being identified, planned and monitored as part of the project management activities. Local consultation and engagement will be planned with residents and ward Councillors and the one leaseholder resident from across both blocks, will be given the option to buy into the scheme.
- 4.1.4 Upon approval to this decision to contract award, the residents will be further engaged by letter and or phone call and if appropriate, conforming to Government guidelines regarding Covid19 (see section 4.6.) local consultation workshops supported by dedicated liaison officers. This planned support to residents will help understanding of the site work benefits and also provide reassurance for any concerns they may have. All residents will also be given a dedicated Liaison officer contact they can call and discuss any queries they have.
- 4.1.5 The works activities will include contractor engagement with residents and also through provision of a 'show flat' or equivalent if possible, to help explain the works and provide a support surgery.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality, Diversity, Cohesion and Integration (EDCI) assessment was completed and was an appendix to the key decision report. The council has ensured that key points were included in the contract documentation, such as the contractors' Resident Liaison Role, and how we make sure appropriate resident information is provided to contractors.

4.3 Council policies and the Best Council Plan

- 4.3.1 The planned works will contribute to the Best Council Plan priority by tackling fuel poverty through improving energy performance in homes, supporting the outcome of everyone living in good quality, affordable homes; everyone to be safe and feel safe.
- 4.3.2. This work is strongly aligned to the Best Council Plan Housing Priorities and our ambitions to:
- Supporting communities and tackling poverty.
 - Promoting sustainable and inclusive economic growth. Improve housing quality and standards.
- 4.3.3 As a result of work with Leeds Beckett University the pilot will provide evidence to confirm if the planned benefits have been realised that supports the using of

sustainable energy GSHP system, as a long term investment to benefit residents. The data and evidence will support ongoing investment and strategy planning.

Climate Emergency

- 4.3.4 At Full Council on 27th March 2019, Leeds City Council passed a motion declaring a Climate Emergency. In addition, the Leeds Climate Commission have proposed a series of science based carbon reduction targets for the city so that Leeds can play its part in keeping global average surface temperatures to no more than 1.5c.

With this pilot being a vested interest in meeting the Climate Emergency target, the contractor will be working with us to reduce the impact of the construction works on the environment.

- The benefits highlighted from this pilot that contribute to meeting the Climate Emergency are estimated below as found from the pilot feasibility study: average energy performance of flats improves by 30%.
- Carbon emissions reduced by estimated 70%, 392 tonnes per block, each year. Energy efficiency (SAP rating) is improved so flats will be at or above rating D.

- 4.3.5 It should also be noted there will be some limited but unavoidable negative effects during construction activities. For example the release of embedded carbon involved with transporting of materials, construction traffic etc.

- 4.3.6 The council will work with the contractor to explore opportunities to mitigate or reduce carbon emissions. For example, by coordinating route planning and delivery schedules, and will work jointly to reduce fuel consumption and lower exhaust emissions.

- 4.3.7 The contractor will be required to meet all legislation, guidance and good industry practice in regards to environmental management; and to ensure non-hazardous material is disposed of at a tip approved by a Waste Regulation Authority.

4.4 Resources, procurement and value for money

- 4.4.1 A detailed analysis and review of the tendered price has been undertaken by the Quantity Surveyors in the commercial team. This is to ensure that the price is both complete and fully compliant with the tender requirements and that the contract value is realistic and sustainable, and offers value for money. A copy of this analysis is contained in confidential Appendix 1.

- 4.4.2 Council funding for the works will be provided via the Housing Capital Programme from the Housing Revenue Account (HRA) and all costs of the contract will fall into financial year 2020/21. A project budget has already been allocated for this pilot, inclusive of contingency and allowance of extras.

- 4.4.4 In April 2021 eligible funding is also hoped to be secured for this pilot scheme and is estimated at £2,537,813 from both Renewable Heat Incentive initiative (RHI) and ECO 3 combined. This would mean that the pilot scheme could be expected to have paid for itself within an estimated 18.5 years. The planned approach is for

the specialist contractor to source the ECO 3 funding directly and therefore reduce the Council's upfront cost effectively saving us £325k.

- 4.4.5 The contract will be managed by an experienced contract management from the planned works team within Strategy and Investment. A contract management plan will be maintained, as is required by Contract Procedure Rule 3.1.15.

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

- 4.5.1 This report is a subsequent decision of a previous key decision on 14th May 2020 and is therefore a Significant Operational Decision which is not subject to call in.
- 4.5.2 Appendix A of this report has confidential information as per the Access to Information Rules 10.4.3.
- 4.5.3 The value of this contract is below the OJEU procurement threshold.
- 4.5.4 The contractor will be a data processor, and a data privacy impact assessment has been undertaken and relevant considerations will be included in the contract.
- 4.5.5 In making their final decision, the Director of Resources and Housing should note the above comments and be satisfied that the course of action chosen represents best value for the Council.

4.6 Risk management

- 4.6.1 A risk register for the project is in place and will continue to be managed to monitor and mitigate risks, as well as identify any new risks as they arise. Once a contract is in place the council and the contractor will work together to monitor and review risks on a monthly basis.
- 4.6.2 The contract management plan will be followed and all risks considered and mitigated to ensure robust and proactive risk management. The contract terms and conditions have also been reviewed to reduce any risk of contractual issues arising from using the PFH framework and associated form of Contract. This has ensured we have an appropriate specification and approach for the works to be delivered having taken into account the knowledge gained from the previous feasibility study.
- 4.6.3 The risk of the project going over budget is to be mitigated by the production of robust costings based on the recent feasibility data exercise. The Commercial team will further manage this by closely monitoring the costs through design and build through monthly financial statements to maintain cost control and support the delivery of the project on time and to budget.
- 4.6.4 Key notable risks include:
- 4.6.5 Health & Safety Corona virus** - Impact and implications of COVID-19. Given the current situation in relation to COVID-19 the health and safety of residents and contractors staff is our priority, and we will make sure that any contractors working on this scheme will be doing so in line with government and construction sector guidance to keep people safe.
- 4.6.6 The Contractor will work to an agreed method statement which will include explicit provision/conform to all government guidance to manage all risks associated with COVID-19 and contact with residents in the delivery of this scheme.

- 4.6.7 Onsite supervision will monitor throughout the delivery of this scheme to ensure that all aspects of the commitments made in the method statements are fully undertaken.
- 4.6.8 We have and will continue to monitor any challenges for our contractors and their supply chain, including financial ones, and work closely with them on any implications for timescales for works. Note, that we will continue to work closely with the Contractor as Government construction guidance is updated to ensure the proposed works are deliverable in respect of health and safety, access and egress and in terms of supply chain, supplier relief to enable a successful delivery.
- 4.6.9 Timescales to meet construction delivery.** Achieving timescales for the works delivery. The planned timescales for the works link to both activity to secure the RHI funding, and to get as much data as possible from the installed sensors in relation to provision of evidence about any planned benefits during the winter 2020/21 season. These are currently challenging but should be achievable. Progress against plan will be regularly monitored and any issues escalated to work to keep activity on track.
- 4.6.10 It should also be noted that previous lessons learnt from other planned works projects and also from the experience of other contractors to help to develop this scheme are to be taken into account. For example; lessons learnt from previous installation works recognises that training needs are to be undertaken to up skill maintenance contractors and that the RHI funding process is complicated and will require support from the contractor. Other considerations has been that the heat pump operation requires resident advice and support to maximise on its benefits.

5 Conclusions

- 5.1 This contract and its works will contribute to meeting our climate emergency, reducing fuel poverty and enhancing the efficiency and quality of homes for residents.
- 5.2 The procurement process undertaken has been in accordance with the Regulations and the Council's Contract Procedure Rules, with guidance and support from the Strategy and Investment team.
- 5.3 This pilot scheme will be data analysed by Leeds Beckett University's sustainability team using sensor monitoring and resident feedback in 20 flats across the two blocks which can contribute to future decision making regarding renewable heating works.
- 5.4 Due diligence has been undertaken as a result of Coronavirus which is explained at 4.6 of this report.
- 5.6 A robust tender evaluation of the tender price submission has confirmed that the tender is both complete, compliant and represents value for money. The council will manage the contract to ensure that ongoing value for money and safety is maintained.
- 5.7 Following the approval of this contract, Cenergist will provide the project with resources in the manner of specialist skills, technical expertise and knowledge, consistent with regards to Health and Safety and environmental considerations, which will support us in delivering the installation of GSHP.

6 Recommendations

6.1 The Director of Resources and Housing is requested to;

- a) Approve the award of a contract to Cenergist Ltd to undertake the installation of Ground Source Heat Pumps for a contract sum of £1,844,845.28 to two high rise blocks at The Heights East and The Heights West.
- b) Note that this follows a call-off from the Procurement for Housing (PFH) framework and that it is proposed that these works will be completed in a 9 month period between June 2020 and February 2021.

7 Background documents¹

7.1 None

8 Appendices

Appendix 1 – Tender Analysis 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.