

Report of Head of Strategy & Investment

Report to Director of Resources and Housing

Date: 14th July 2020

Subject: Approval to procure a contractor to undertake design, build and delivery of District Heating Clusters for high rise housing

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, name(s) of ward(s): Armley, Little London & Woodhouse, Gipton & Harehills, Killingbeck & Seacroft	
Has consultation been carried out?	<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
Will the decision be open for call-in?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, access to information procedure rule number:	
Appendix number:	

Summary

1. Main issues

- As part of the council's activity to tackle the climate emergency, and address fuel poverty, works are planned to design and build and, for a limited time, maintain six District Heating Clusters across the city which will provide energy to be used for heating and hot water purposes.
- The installation of more efficient heating and hot water systems will result in a number of benefits to residents including the ability to control temperature in their homes and to control expenditure on utility bills.
- For reference, a cluster is defined as a network providing heating and hot water provision in each flat within a maximum of six high rise blocks.
- This scheme involves replacing the existing electric storage heating and hot water systems in 26 high rise housing blocks with modern and efficient heating, reducing carbon emissions.
- The works are of a specialist nature and, following consultation with the internal service provider, as they are unable to carry out these specialist works, it is planned to procure an external contractor through an OJEU compliant competitive two stage tender process.

- The first tender stage undertaken in competition will secure the preferred contractor, and will result in a decision to award a contract for their professional services related to design activity. Following this there will be a series of reports which will act as gateway decision points for each subsequent construction and operation and maintenance contract. Each batch of clusters will bring a separate award report for approval of these aspects of the scheme.
- The estimated capital cost of the scheme is approximately £24m.

2. Best Council Plan Implications (click [here](#) for the latest version of the Best Council Plan)

- This will contribute to the Best Council Plan priority of tackling poverty through improving energy performance in homes, and supports the outcome of everyone living in good quality, affordable homes.
- Key benefits are expected to be:
 - Average energy bills reduced by at least 10% for each household;
 - To reduce overall carbon emissions by approximately 950 tonnes of Carbon Dioxide emissions (CO_{2e}) per annum across all included blocks and
 - Energy efficiency (measured by SAP rating) is improved so all flats will be at or above rating D.

3. Resource Implications

- The estimated capital cost of the works is £24,000,000 to be spent over the financial years 2020/21 to 2023/2024. This will be funded via the Housing Capital Programme from the Housing Revenue Account (HRA). This scheme currently has funding of £24,250,000 allocated to it.
- If the submitted application under the European Regional Development Fund (ERDF) is successful, this will provide £7,402,351 in additional funding. This would mean approximately £16,600,000 of Leeds City Council funding will be used for this scheme and the remaining council funding will be used for other capital programme schemes.
- Operation and maintenance costs could vary substantially dependent on the technology used. Costs have been estimated at a maximum cost of £340,000 per annum (exc. fuel). These costs will be funded via the Housing Revenue account (HRA). Approval for any revenue costs will be sought at a future decision point, when these are clear.

Recommendations

The Director of Resources and Housing is requested to:

- a) Approve this scheme to replace heating and hot water systems in 26 high rise blocks, installing a low carbon district heating network in the form of six clusters;
- b) Approve the proposed procurement of an external contractor through an OJEU compliant competitive two stage tender process and
- c) Approve Authority to spend £24m from the capital programme over the financial years of 2020/21 to 2023/2024 for the 26 blocks in six clusters.

1. Purpose of this report

- 1.1 The purpose of this report is to provide information on this District Heating scheme and gain approval to progress it, including authority to spend £24m from the capital programme, and to seek approval of the procurement route to engage an external contractor to deliver these works.

2. Background information

- 2.1 Twenty six council high rise housing blocks have been identified as needing new heating solutions to improve energy efficiency via six District Heating Clusters. Appendix A provides information on their locations and the blocks involved.
- 2.2 This project seeks to design, develop and deliver the district heating clusters as well as sprinkler system retrofitting in the affected blocks.
- 2.3 The intention is to benefit residents by reducing their fuel costs and improving their ability to control heating, as well as to reduce carbon emissions.
- 2.4 The project team is supported by specialist technical expertise. This is being provided by Ove Arup Partners International Limited (Arup's), following a separate competitive procurement process.
- 2.5 In February 2020 an application for European Regional Development Funding (ERDF) was submitted for this project. If the application is successful it will allow £7.4m of European funding, to be used for construction works on four clusters. A decision on this application is due in December 2020.

3. Main issues

- 3.1 The contractor's activities will consist of full system design and delivery of a District Heating Network for each cluster. This includes:
- Design from heat source to heating/hot water provision within each flat;
 - Installing and commissioning all elements of the system including:
 1. A new heat source and accompanying infrastructure;
 2. Well insulated underground pipework with leak detection system;
 3. Well insulated new pipework, and associated boxing in works;
 4. Removal of old heating and hot water systems in each block and flat and
 5. Metering and billing facilities for each flat, unless not required for the technology (for example Shoebox ground source heat pumps).
 - Operating and maintaining the network, for an initial contractual period following installation with options for extension of up to a maximum of three years. (Appendix A shows initial contract lengths for each cluster).
- 3.2 All blocks in this scheme, which have not previously had sprinkler installation carried out, will be retrofitted with sprinklers in order to minimise disruption to residents by aligning activity.
- 3.3 In order to control decision making and gateways in this scheme, the proposed procurement strategy will be a two stage process. Stage one will award a contract to undertake design and other activities to achieve council approval, there will be clear gateways with the contractor for the design of each batch of clusters.

- 3.4 As part of the design, the contractor will develop and then submit their Stage two tender proposals for both construction, and operation and maintenance of each batch of clusters. This will keep control over this scheme by forming a gateway process between phases of construction.
- 3.5 An NEC4 Professional Services Contract (PSC) will be used in Stage one to appoint a successful contractor and manage the design of the clusters and heating network.
- 3.6 An NEC4 Engineering and Construction Contract (ECC) Option A will be used for construction of each batch of clusters. This is a lump sum contract for construction works with an activity schedule for pricing.
- 3.7 An NEC4 Term Service Contract (TSC), Option A will be used for operation and maintenance of each batch of clusters. This is a lump sum contract for services with an activity schedule for pricing.
- 3.8 A range of procurement options have been considered to procure a contractor. A summary of the options considered are:
- 3.9 Option 1 – do nothing. Discounted, there would be no procurement activity to deliver the scheme.
- 3.10 Option 2 – Leeds Building Services deliver in house. Discounted. The internal service provider was consulted as required by Contracts Procedure Rule 3.1.4 with regards to the scope of works. The Head of LBS has indicated that they do not have the specialist level of expertise to carry out these works.
- 3.11 Option 3 – Procure using an existing External Framework – Discounted. The following external frameworks have been considered; Efficiency North and Fusion21. All have been procured to be OJEU compliant therefore saving approximately three months as no PAS91 PQQ assessment would be necessary. However in all cases the established frameworks only offered a small limited pool of contractors and did not cover the nature, number or extent of organisations in this market who may be interested in our procurement. Therefore on this occasion this method has been discounted due to the potential to reduce the pool of available contractors, which it is felt a project OJEU specific to Leeds is likely to engage with.
- 3.12 Option 4 – Procure using an OJEU Restricted Tender – Recommended – This option would provide a compliant route to the largest possible market, meaning the pool of available contractors is sufficient for the scale of these works. A restricted rather than open tender process is recommended as the PAS91 (pre-qualification questionnaire) process will give important information on the financial standing, capacity and technical capability of respondents and is thought to encourage bidders if they know they will only compete with a limited pool of companies at stage one.
- 3.13 The evaluation of the competitive tenders within stage one will be on a price/quality ratio of 50% quality and 50% price. The questions, thresholds and weightings that make up the tender evaluation criteria are being prepared and approval will be subsequently sought in line with CPR 15.1 to invite tenders on this basis.
- 3.14 Indicative timescales for this procurement are highlighted within Appendix A. This shows when design, construction as well as operation and maintenance is scheduled for each batch of clusters in the scheme and when key gateway decision points are scheduled for the scheme.

3.15 Should energy be provided centrally to residents they would be required to agree to a tenancy variation and any service and Kilowatt hour charges would be received as part of a rent payment. These rates are reviewed annually by the council. Leaseholders would be charged as an arrangement from buying into the scheme.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 This report has been developed by the Housing Strategy and Investment lead and the 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 and supported the planned decisions.
- 4.1.2 Initial consultation was undertaken in March 2020 with Ward Councillors in all affected wards through a high level communication discussing high level project plans and aims of the scheme. Detailed consultation with Ward Councillors will occur throughout the project.
- 4.1.3 The Executive Member for Communities has been consulted and is supportive of the recommendations set out in this report.
- 4.1.4 It is proposed that full resident engagement will commence once an approach has been agreed with the contractor. As part of the competitive procurement, the evaluation criteria will include assessments of a contractors approach to resident communication and engagement.
- 4.1.5 Leaseholders will be given the option to buy into the scheme. As such, a formal consultation period does not apply. Leaseholders who have flats in our high rise buildings are not charged for sprinkler installation. Therefore it is not necessary to follow a legal consultation process for this aspect of the works.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality, Diversity, Cohesion and Integration (EDCI) impact assessment has been undertaken and is attached at Appendix B;
- 4.2.2 Council requirements in relation to equality and diversity will be included within the tender documentation for the successful contractor. This will also be assessed as part of a resident communication strategy within the evaluation criteria during the procurement process.

4.3 Council policies and the Best Council Plan

- 4.3.1 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 and improve housing quality and standards.
- 4.3.2 This scheme will directly benefit residents in the living in the buildings included in the proposed clusters. At present the heating and hot water provision is delivered through outdated electric storage heaters which are inefficient, offer little control to residents and can result in expensive energy bills. These will all be replaced with a new wet heating system benefitting residents through improving energy efficiency,

reduced average energy bills as well as improved comfort levels by giving greater control to residents over the ambient temperature in their homes.

- 4.3.3 The contractor will be required to work with the council to maximise job opportunities for Leeds residents. They will work with Employment Leeds, to support improving job opportunities within the city aligning the project to the inclusive growth agenda, part of the Best Council Plan.

Climate Emergency

- 4.3.4 In 2019 the Elected Members of Leeds City Council declared a Climate Change Emergency, and we have a commitment to becoming carbon neutral by 2030. This project supports this by reducing carbon emissions within council housing stock.

- 4.3.5 The benefits highlighted for this project that contribute to meeting the Climate Emergency are estimated below:

- To reduce overall emissions by approximately 900 tonnes of Carbon Dioxide emissions (CO_{2e}) per annum across all blocks and
- Energy efficiency is improved so all flats will be at or above a SAP rating D. Currently 64 flats are below this.

- 4.3.6 The council will work with the contractor to explore opportunities to reduce carbon emissions. The contractor will also be required to meet all legislation and industry practice in regards to environmental management.

4.4 Resources, procurement and value for money

- 4.4.1 The procurement will be carried out in an open and transparent manner in line with Council Contract Procedure Rules and as required by the Public Contract regulations 2015 to identify best value.

- 4.4.2 Any contract will be managed by the Strategy & Investment team. A contract management plan will be developed in line with Contract Procedure Rule 3.1.16.

- 4.4.3 Council capital funding will be provided from the Housing Revenue Account (HRA) and costs will fall into financial years 2020/21-2023/2024. Funding of £24,250,000 has been allocated for this scheme. This is based on a costed commission consultancy report which identified the cost to be £20m together with £4m for sprinkler installations. All costs have been reviewed by our commercial team and represents the best pre-procurement estimate of the cost for the scheme.

Capital funding and cash flow table (capital scheme 32022/GC1/000) as below:

Previous total Authority to Spend on this scheme	TOTAL £000's	TO MARCH 2020 £000's	FORECAST				
			2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024 on £000's
LAND (1)	0.0						
CONSTRUCTION (3)	0.0						
FURN & EQPT (5)	0.0						
INTERNAL DESIGN FEES (6)	0.0						
OTHER FEES / COSTS (7)	0.1	0.1					
TOTALS	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Authority to Spend required for this Approval	TOTAL £000's	TO MARCH 2020 £000's	FORECAST				
			2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024 on £000's
LAND (1)	0.0						
CONSTRUCTION (3)	24000.0			5332.2	9367.8	9300.0	
FURN & EQPT (5)	0.0						
INTERNAL DESIGN FEES (6)	0.0						
OTHER FEES / COSTS (7)	249.9		249.9				
TOTALS	24249.9	0.0	249.9	5332.2	9367.8	9300.0	0.0
Total overall Funding (As per latest Capital Programme)	TOTAL £000's	TO MARCH 2020 £000's	FORECAST				
			2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024 on £000's
Housing Revenue Account	24250.0	0.1	249.9	5332.2	9367.8	9300.0	
Total Funding	24250.0	0.1	249.9	5332.2	9367.8	9300.0	0.0
Balance / Shortfall =	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Revenue Effects Table:

REVENUE EFFECTS	2020/21 £000's	2021/22 SUBSEQUENT YEARS £000'S
EMPLOYEES		
PREMISES COSTS		
SUPPLIES & SERVICES		340.0
EXTERNAL INCOME GENERATED		

4.4.4 Within the ERDF application, spend per financial year was forecast as below Further information regarding ERDF funding can be found in 4.6.2

	2020/2021	2021/2022	2022/2023	2023/2024	Total
ERDF Forecast per Financial Year	£106,000	£2,172,885	£3,858,710	£1,264,756	£7,402,351

4.4.5 The scale of the operational costs will only be known when the technology has been agreed. The maximum cost has been estimated as £340,000 per annum (exc. fuel) when all six clusters are in operation, a spend profile based from these estimates is detailed below.

Cluster	Estimated annual operational costs
Clusters 1 & 2 (Wykebeck Valley & The Barncrofts)	£130,000
Clusters 3 & 4 (The Poplars & The Burnsalls)	£100,000
Clusters 5 & 6 (The Briarsdales & Lovell Park)	£110,000
Total	£340,000

4.4.6 Costings are from a commissioned report by Arup's and are based on the use of biomass boilers, considered the most expensive technology to operate. Full costs will be developed once the technology has been agreed and approval for this will be sought at a future decision point. This will be funded via the Housing Revenue account (HRA).

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

4.5.1 The decision set out in this report is a key decision, and subject to call-in.

- 4.5.2 This report is a key decision to seek approval of the scheme, authority to spend and to agree the procurement route.
- 4.5.3 Resulting decisions from this will include: the contract award for the professional services related to design activity; the contract award for the construction followed by the operation and maintenance for each batch of clusters as well as any future request to extend an operation and maintenance contract.
- 4.5.4 These subsequent decisions will be brought back to the decision maker for consideration.
- 4.5.5 A Data Protection Impact Assessment has been undertaken. This has shown that the contractor will be a data processor. Council information governance requirements will be included in the contract.

4.6 Risk management

- 4.6.1 A risk register for the project is in place and will continue to be managed to monitor mitigate and identify any new risks. Once a contractor is in place the council will work with them to review risks regularly. Notable risks include:
- 4.6.2 European Regional Development Funding – An initial funding assessment has been successful and the application is currently being considered at a second stage. There is a risk that funding will not be granted. Further funding is held in reserve and would be used if the application is unsuccessful but this would mean this funding could not be used for other blocks which require heating upgrades under different schemes.
- 4.6.3 Changes to investment plans – The commission includes a phased approach to design and construction activity. This creates a degree of flexibility which will allow for changes such as to the number of blocks per cluster to allow alignment with wider investment plans and priorities.
- 4.6.4 Health & Safety -Given current circumstances in relation to COVID-19, the health and safety of residents and contractors is our top priority. We will make sure that any work on this scheme will be done in line with government guidance.
- 4.6.5 We are taking into account previous lessons learnt from other projects such as the Leeds PIPES scheme. Lessons learnt from this project recognises that a strong communication strategy and clear, timely communication to residents is required. This allows easier access to properties and maintains a methodical approach to completing installation work, whilst also achieving high resident satisfaction.

5. Conclusions

- 5.1 Works planned are to install new low carbon heating systems, in 26 high rise blocks, organised into six clusters across the city.
- 5.2 Indicative timescales and key decision points for the scheme can be found in Appendix A. Works are to be delivered by appointment of a contractor from a restricted two stage competitive OJEU compliant procurement process.
- 5.3 The scheme has been developed so design and construction for the scheme is split into three batches, each containing two clusters. This allows managed decision making at key intervals during the scheme and controls budgetary spending across the project lifecycle.

6. Recommendations

The Director of Resources and Housing is requested to:

- a) Approve this scheme to replace heating and hot water systems in 26 high rise blocks, installing a low carbon district heating network in the form of six clusters;
- b) Approve the proposed procurement of an external contractor through an OJEU compliant competitive two stage tender process and
- c) Authorise capital spend of £24m from the capital programme over the financial years of 2020/21 to 2023/2024 for the six clusters capital works.

7. Background documents¹

7.1 None.

8. Appendices

Appendix A – Cluster locations and indicative scheme timescales

Appendix B – Equality, diversity, cohesion and integration impact assessment

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.