

Report of Head of Strategy & Investment

Report to Director of Resources and Housing

Date: 16 October 2020

Subject: Authority to spend and procure a contractor to replace heating systems in 2 high rise housing blocks with the installation of ground source heat pumps

Are specific electoral wards affected? If yes, name(s) of ward(s): Armley	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary

1. Main issues

- As part of the council's plans to address fuel poverty and the climate emergency, works are planned to replace existing electric storage heating and hot water systems in two further council high rise blocks as part of a phase 2, namely Westerly Croft and Westerly Rise in Armley. The current heating systems in these blocks are near or at the end of their life, and their replacement provides an opportunity to use a renewable technology and reduce carbon emissions.
- Feasibility activities carried out have confirmed installation of ground source heat pumps (GSHP) is a viable and suitable option for the site. Works will be of a specialist nature and following consultation with the internal service provider and a procurement options appraisal, it is planned to tender the works to an external contractor by direct award under a competitively procured framework.
- The works involve the supply and installation of new ground source heat pumps (GSHP), along with removal of existing electric storage heaters and their replacement by a wet radiator system in each of the flats.
- The scheme is a Phase 2 from similar works started this year at The Heights high rise blocks as Phase 1. The Phase 2 scheme is planned to start on site in November 2020 and works will complete in Spring 2021.
- The estimated contract value for the works is approximately £1.510m. It is planned to engage a contractor in late Autumn 2020 for works to be completed in Spring 2021, with an expected site duration of 5 months.

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

- The programme will contribute to the Best Council Plan outcomes of tackling fuel poverty, and the climate emergency by improving energy performance in homes and support residents to live in good quality, affordable homes.
- Key benefits are expected be:
 - Average energy bills reduced by a third for each home.
 - Carbon emissions reduced by estimated 77% (155 tonnes per block) each year.
 - Heating & hot water systems more efficient and more controllable for residents.
 - Energy efficiency (SAP rating) is improved so all flats will be at or above rating D

3. Resource Implications

- The estimated total cost of the scheme is £1.510m, (£0.5m spent from 2020/21 financial year and £1.01m brought forward from 2021/22 financial year. This will be funded via the Housing Capital Refurbishment Programme from the Housing Revenue Account (HRA).
- If a planned application for revenue funding of renewable heating incentive (RHI) is successful, it is anticipated the scheme will become cost neutral in 18.5 years time.

Recommendations

The Director of Resources and Housing is requested to:

- a) Approve this scheme to replace heating and hot water systems in two high rise blocks, Westerly Croft and Westerly Rise, and install ground source heating pumps (GSHP).
- b) Authorise expenditure of £1.510m from the capital programme during the financial year 2020/21
- c) Approve the proposed procurement of an external contractor for these specialist works via a direct call off from the Procurement for Housing (PFH) framework.

1. Purpose of this report

- 1.1. The purpose of this report is to provide information on this scheme and gain approval to proceed with the recommended procurement route to engage an external contractor to deliver these specialist works and
- 1.2. Authority to spend an overall budget of £1.510m. The project lifespan will cut across two financial years commencing November 2020 concluding in 2022. There is provision within the capital investment programme to deliver this scheme.

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. Westerly Croft and Westerly Rise are 12 storey Wimpey high rise construction blocks, each with 46 flats that are a mix of one and two bedrooms.
- 2.3. At present, the flats are supplied with heat and hot water by electric storage heaters and hot water cylinders with electric immersions; and tenants secure their electric supply via Economy 7 tariffs.
- 2.4. The aim of the scheme is to benefit residents by reducing their fuel costs and improving their ease and ability to control heating; and to reduce carbon emissions.
- 2.5. Undertaking these works, along with those started in Phase 1, at The Heights East and West, will help inform decision making for any future roll out of such new heating systems to further blocks; in particular if a ground source heat pump (GSHP) approach achieves its anticipated benefits, and improving our knowledge and expertise of this type of renewable energy system.

3. Main issues

- 3.1 Following feasibility assessments on three other clusters of blocks, the two Westerly blocks in Armley were identified as being most suitable. The rationale for this proposal is covered below in 3.2 to 3.4.
- 3.2 It was recommended to identify possible clusters, rather than stand-alone blocks as it is more cost beneficial to carry out the GSHP work to multiple blocks saving on preliminary costs. This was achieved by reviewing SAP ratings of the remaining blocks highlighted for heating replacements and then ranked them by prioritising blocks falling below the city average B and C with a rating of 70.12.
- 3.3 Further consideration was also given to whether Clusters had sprinklers already installed and the type of encasement used in flats which could impact the progress of pipework being fitted, as well as the geology of the land for drilling works that may constrain the delivery of the GSHP technology.
- 3.4 It is recommended that Westerly Croft and Westerly Rise blocks are prioritised to be phase 2 of GSHP programme as the ground conditions are more suitable and results in a shorter period of site works and reduces any impact to residents. The

two blocks are situated in Armley where there has been no significant investment other than from Housing Revenue Account (HRA) in recent years to these blocks.

- 3.5 A contractor will be required to include the full GSHP system design, delivery and installation, including new piling holes in surrounding grassland, with connecting pipework to the blocks and individual flats, and the replacement of the heating and hot water system in each flat.
- 3.6 The Council are keen to take forward the works as quickly as possible, not least to be able to seek to maximise ability to draw upon currently available Government funding to encourage the take up of using renewable energy. This is through a revenue incentive, but requires works to be complete and a successful application to be submitted before as the current scheme closes in March 2021.
- 3.7 A range of procurement options have been considered in relation to the approach to procure a contractor for these works. A summary of the options considered are:
Option 1 – Leeds Building Services deliver in house.
- 3.8 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.
Option 2 – Procure a Leeds City Council Contract through Competition.
- 3.9 This route would provide an opportunity to test the market through a competitive exercise. Due to the specialist nature of the works, a 2 stage tender would be used as this method helps to maximise the robustness of the tender process and encourages early contract involvement / engagement. This would include initially advertising to the open market via YORtender. Then carrying out a pre-qualification process (PAS91) to shortlist the suitably qualified and experienced contractors. Finally shortlisted contractors would be evaluated through a price / quality evaluation methodology.
- 3.10 It is estimated that this route would take approximately a further 3-4 months in order to receive, evaluate and shortlist applications from the PAS91. Whilst this can be done, this route is not recommended as the preferred procurement option as this additional time would severely jeopardise the council's ability to secure external funding for which the deadline is April 2021.
Option 3 – External Frameworks – Recommended
- 3.11 A number of externally procured OJEU Compliant frameworks have been considered. These include YORBuild2, Efficiency North, Fusion 21, Northern Housing Consortium and the specific more energy efficient specialist framework such as Better Homes Yorkshire and Procurement for Housing. Each has been considered since they have suitable lots with relevant contractors on them. Bidders appointed to the framework have already been assessed through an OJEU compliant competitive tendering exercise and have been deemed as best value in this. They have already had their technical capacity and ability evaluated. Timescales for the procurement can be reduced as the frameworks are already established therefore there is no need for pre-qualification (PAS91) or shortlisting is required.
- 3.12 In choosing between the framework options, factors of a requirement to carry out these priority works quickly, coupled with the availability of using a contractor who has successfully delivered similar works recently, to a high quality and standard,

providing value for money and ability to deliver on time. Following this, it is considered on this occasion that the Procurement for Housing framework (PFH) is used, with a direct call off. It should be noted that other framework options were considered such as, the Better Homes Yorkshire Framework, however this was not able to provide the same services for the budget provision when considered against the PFH factors described.

- 3.13 By using the PFH framework for phase 2 it is considered this would allow a contract to be awarded in late autumn 2020 with works subsequently planned to start on site from November 2020 and be completed by Spring 2021.
- 3.14 Maintenance arrangements will be required from April 2022 after the completion of the defect period of 12 months. The maintenance activities are being explored with our internal service provider Leeds Building Services (LBS). Note that LBS will be engaged at the handover stage for maintenance training.

4 Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The recommendations set out in this report have been developed by the Strategy and Investment team in conjunction with project and procurement team and with input from the commercial and legal team throughout the planning and procurement process. All parties are fully supportive of the recommendations set out in this report.
- 4.1.2 Consultation has been undertaken with the three local Ward Councillors and the Executive Member for Communities all of whom are supportive of this investment project.
- 4.1.3 Following approval any subsequent decision about the procurement strategy and contract award will be covered in subsequent report in Autumn 2020, engagement with Residents and leaseholders will take place a letters and, if possible given Covid19 challenges, local consultation workshops supported by dedicated liaison officers. Liaison officers will be available to respond to any resident queries or concerns.
- 4.1.4 There are 2 leaseholders (one in each block), as well as two residents with Right to Buy applications. The leaseholders will be given the option to buy into the scheme. As such, a formal consultation period does therefore not apply as leaseholders will have this option to buy into the heating replacement works, a formal consultation period done therefore not apply.

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 as Appendix 1.
- 4.2.2 As well as there being positive impacts of the scheme the following key points are being taken forward to:
- 4.2.3 Firstly, during the works the time needed in residents flats will be kept to a minimum, and is estimated as up to two days for the changeover of the heating and hot water systems;

- 4.2.4 Secondly, its recognised that residents will need additional support to help their understanding of the new heating system operation, as well to transfer to new energy providers or tariffs that provide them with better value for money; and
- 4.2.5 Thirdly, extra support and communication will be offered to all residents and particularly any vulnerable residents. This support will be from housing officers and the contractor alike, as needed.

4.3 Council policies and the Best Council Plan

4.3.1 The programme 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, safe, affordable homes.

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 Given the short term nature of the contract period and scale of spend there are limitations in scope for any employment and skills opportunities being explored.

4.3.4 Climate Emergency

4.3.5 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 temperature increase to no more than 1.5c.

4.3.6 Scheme benefits that contribute to meeting the Climate Emergency are estimated below:

- carbon emissions reduced by estimated 70%, 155 tonnes per block, each year.
- energy efficiency (SAP rating) is improved so flats will be at or above rating D.
- Note: The predicted SAP rating for the Westerly blocks outcome is that of the 92 properties with current SAP figures of 6 at G rated and 86 at F rated. The GSHP initiative will increase the SAP by an average of 36 SAP points which is a large improvement for a heating measure, taking the SAP rating to 54 at D rated and 38 at C rated following installation of the GSHP.
- The SAP rating can further be improved with future investment by other works, for example external wall insulation.

4.3.7 We will work with the contractor to reduce the impact of the construction works on the environment. For example to explore opportunities to mitigate or reduce carbon emissions by coordinating route planning and delivery schedules.

4.3.8 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.

4.3.9 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 The previous feasibility work completed on The Heights blocks has provided information to demonstrate value for money in respect of the construction works and system benefits which can be replicated for this scheme.

4.4.2 The estimated cost for the construction works as a total contract value is £1.510m which includes overheads and contingency. The costs have been considered by our commercial team of Quantity Surveyors.

4.4.3 The procurement will be carried out in line with the Council's Contract Procedure Rules. A number of external frameworks that have been considered, and it is felt that the option to procure from the Procurement for Housing framework by a direct award, will offer both the best opportunity both in terms of price cost certainty and to achieve the timescales of the programme.

4.4.4 Council funding for the works will be from the Housing Capital Refurbishment Programme from the Housing Revenue Account (HRA), and the activity aligned with the 10 year Housing Leeds Investment Plan which is reported annually to the Executive Board.

4.4.5 The below tables provide information on capital and revenue costs.

Capital funding and cash flow table (capital scheme 32022/KF1/000):

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
CONSTRUCTION (3)	500.0		500.0				
INTERNAL DESIGN FEES (6)	0.0						
OTHER FEES / COSTS (7)	0.0						
TOTALS	500.0	0.0	500.0	0.0	0.0	0.0	0.0
Authority to Spend required for this Approval	TOTAL £000's	TO MARCH 2020 £000's	FORECAST				
CONSTRUCTION (3)	1010.0		974.0	36.0			
INTERNAL DESIGN FEES (6)	0.0						
OTHER FEES / COSTS (7)	0.0						
TOTALS	1010.0	0.0	974.0	36.0	0.0	0.0	0.0
Total overall Funding (As per latest Capital Programme)	TOTAL £000's	TO MARCH 2020 £000's	FORECAST				
Housing Revenue Account	1510.0		1474.0	36.0			
Total Funding	1510.0	0.0	1474.0	36.0	0.0	0.0	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		-12.1
EXTERNAL INCOME GENERATED		

4.4.6 In relation to revenue impact the council will need to pay annual servicing and repair.

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 will be subject to call-in.

4.5.2 The value of this contract is below the OJEU procurement threshold for works.

4.5.3 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.

4.5.4 This report is a key decision to seek approval of the scheme, authority to spend and to agree the procurement route. A Separate report resulting from this on the tender evaluation process, seeking the award of contract and this will be brought back to the decision maker for approval, estimated to be in November 2020.

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 throughout the project.

4.6.2 The risk of the project going over budget has been managed 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.

4.6.3 Key notable risks include:

- COVID-19. The health and safety of residents and contractor staff is our priority. 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. LCC onsite supervision will monitor throughout the delivery of this scheme and monitor any challenges for our contractors, 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.
- Timescales to meet construction delivery. Achieving timescales for the works delivery will be regularly monitored and any issues escalated to work to keep activity on track.

4.6.4 It should also be noted that we are taking into account previous lessons learnt from other projects and from the experience of other contractors to help us plan for this scheme. For example; lessons learnt recognises that training needs are to be undertaken to upskill maintenance contractors and that the RHI funding process is

complicated requiring 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 Works planned are to install a new renewable heating and hot water system using ground source heat pump technology in two high rise blocks, Westerly Croft and Westerly Rise, to start in autumn 2020. Following consideration of options a contractor would be procured for these specialist works by direct appointment from the Procurement for Homes framework.
- 5.2 The work will contribute to tackling the climate emergency, reducing fuel poverty, and enhancing the efficiency and quality of homes.

6 Recommendations

- 6.1 The Director of Resources and Housing is requested to
 - A) Approve this scheme to replace heating and hot water systems in two high rise blocks, Westerly Croft and Westerly Rise, and install ground source heating pumps (GSHP).
 - B) Authority to spend an overall budget of £1.510m. The project lifespan will cut across two financial years commencing November 2020 concluding in 2022. There is provision within the capital investment programme to deliver this scheme
 - C) Approve the proposed procurement of an external contractor for these specialist works via a direct call off from the Procurement for Housing (PFH) framework.

7 Background documents¹

- 7.1 None.

8 Appendices

Appendix 1 - 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.