

Report of Head of Strategy & Investment

Report to Director of Resources and Housing

Date: 26 November 2020

Subject: Approval to award a contract to replace heating systems in 2 high rise blocks with the installation of ground source heat pumps (GSHP).

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, name(s) of ward(s):	Armley
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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If relevant, access to information procedure rule number: 10.4.3	
Appendix number: 1	

Summary

1. Main issues

- As part of the council's plans to support communities, address fuel poverty and increase energy efficiency, a decision was taken by the Director of Resources and Housing in November 2020 to approve the procurement and provide the authority to spend for works to replace existing electric storage heating and hot water systems in a further two high rise blocks in the city.
- These blocks are Westerly Croft and Westerly Rise in Armley, where the current heating systems are near or at the end of their life. The replacement of heating systems provides the opportunity to use renewable technology and reduce carbon emissions using ground source heating pumps (GSHP).
- In line with the agreed approach a tender process has taken place through the Procurement for Housing (PFH) framework, evaluation and due diligence work has been undertaken, and this report seeks approval to the direct award of the contract to Cenergist Ltd.
- The contract value of the works is £1.610m. Works are planned to start on site as soon as possible, and be complete in March 2021.

- The value is £100k above the pre-tender estimated cost, linked to a change related to scheme redesign to align with housing development plans on the adjacent Mistress Lane

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

- The scheme will contribute to the Best Council Plan outcomes of tackling fuel poverty, and the climate emergency, by improving energy performance in homes, and supporting residents to live in good quality, affordable homes.
- Key benefits are expected to include reducing average energy bills by a third; reducing carbon emissions by three-quarters; energy efficiency of flats improved (all will be at or above SAP rating D); and more controllable heat and hot water systems for residents.

3. Resource implications

- Funding for the works will be from the Housing Capital Refurbishment Programme from the Housing Revenue Account (HRA), and the authority to spend £1.510m on the scheme has already been approved. An additional spend of £100k now needs to be authorised.
- An application for Renewable Heating Initiative (RHI) funding for the scheme is planned in March 2021.

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 £1.610m to two high rise blocks – Westerly Croft and Westerly Rise; and
- b) Note that this follows a direct call off from the Procurement for Housing framework, and that it is proposed that these works will be completed between December 2020 and March 2021, and
- c) Approve expenditure for an additional £100k to enable delivery of the full project.

1. Purpose of this report

- 1.1 The purpose of this report is to report the results of the tender evaluation process and to obtain approval for the award of the contract for this scheme to Cenergist Ltd for the sum of £1.610m.

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.
- 2.6 The key decision report of October 2020 (see background documents) set out further information on the choice of the blocks and feasibility, and resulted in approval of the scheme and spend, and of the approach to procure a contractor via a direct call off under the external procurement framework Procurement for Housing (PFH).

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 bore holes in surrounding land, with connecting pipework to the blocks and individual flats, and the replacement heating and hot water system in each flat.
- 3.2 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.
- 3.3 On this occasion the Procurement for Housing framework (PFH) contractor Cenergist Ltd are to be used. These are priority works and Cenergist has the ability to provide these works on time, to budget, to a high standard of quality and provide value for money.

- 3.4 The tender submission has been evaluated by the project team and the Tender Analysis Report is attached at Appendix A, a confidential report on the tender submission prepared by the Housing Commercial team
- 3.5 The cost of the contract is £100k above the pre-tender estimated costs, linked to additional works related to scheme redesign for alignment with housing development plans on the adjacent Mistress Lane.
- 3.6 It is proposed that the construction works will commence on site in December 2020 and be completed by March 2021.
- 3.7 Government funding is available to encourage the take up of using renewable energy through the Renewable heat incentive, but requires a successful application to be submitted in spring 2021 as the current scheme closes in April 2021.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The key decision to deliver this scheme and to procure was published in October 2020, and the decision made by the Director of Resources and Housing.
- 4.1.2 Consultation has been undertaken with local Ward Members as well as Housing Management teams at Housing Leeds, all are fully engaged and supportive of the planned works.
- 4.1.3 Upon approval of this decision, further local consultation and engagement will be undertaken with residents and ward members.
- 4.1.4 The works activities will include contractor engagement with residents and also through provision of a 'show flat' or equivalent if a void property is available, to help explain the works and provide a support surgery.
- 4.1.5 Housing Strategy and Investment staff have worked closely with project and procurement teams and with legal and finance colleagues throughout the planning and delivery of this procurement, and for the finalisation of this report.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality, Diversity, Cohesion and Integration (EDCI) impact assessment was completed and published with the key decision report in November 2020.
- 4.2.2 Though the project will have a positive impact for residents from these blocks, actions will be out in place to make sure that resident's communication needs are taken into account by the contractor and vulnerable people are supported.

4.3 Council policies and the Best Council Plan

- 4.3.1 This work is strongly aligned with the Best Council Plan priorities, and our ambitions to support communities and tackle poverty, promote sustainable and inclusive economic growth, and improve housing quality and standards.

Climate Emergency

- 4.3.2 The scheme also contributes to meeting the Climate Emergency, declared by Leeds City Council on the 27th March 2019, as highlighted in the key decision report (see

background documents). These benefits include achieving reduced carbon emissions and improved energy efficiency (SAP) ratings.

4.4 Resources, procurement and value for money

- 4.4.1 A copy of the tender analysis is contained in Appendix A and due diligence has been undertaken by the Housing commercial team of quantity surveyors on the price and tender requirements to ensure that the contract values are realistic, sustainable and offer value for money.
- 4.4.2 Council funding of the works will be provided via the Housing Capital Programme from the Housing Revenue Account and all costs of the contract will fall into financial year 2020/21, except for any retention.
- 4.4.3 Authority to spend of £1,510k has already been approved. An additional £100k is required, which would bring the total authorised expenditure to £1,610k. This additional expenditure will fall into the 2020/21 financial year and be funded from within the existing Housing Leeds Capital Programme.
- 4.4.4 In March 2021 an eligible funding application is also planned to be applied for to claim towards this scheme at an estimated £1,843,038 from the Renewable Heat Incentive (RHI) government scheme over 20 years.
- 4.4.5 The contract will be managed by an experienced contract management team from the Housing planned works team within strategy and investment service. A contract management plan will be maintained, in line with 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 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 contractor will be a data processor and a data privacy assessment has been undertaken and relevant considerations included in the contract.
- 4.5.4 In making the final decision, the Director of Resources and Housing should note the above comments and be satisfied that the course of action chosen represents the 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 and new risks as they arise. Once the contract is in place the contractor and Leeds Housing will work together to monitor and review on a regular basis.
- 4.6.2 The risk of the project going over budget will be managed by the Leeds Housing Commercial team who will closely monitor costs through the project duration through financial statements to maintain cost control and support the on time delivery of the project to budget.
- 4.6.3 Key notable risks are:

- 4.6.4 COVID-19. The health and safety of residents and contractor staff is our priority. We will make sure that the contractor working on this scheme will be doing so in line with government and construction sector guidance to keep people safe. Council onsite supervision will monitor this and ensure the proposed works are deliverable in respect of health and safety, and access and egress. There will also be close working in terms of any supply chain challenges.
- 4.6.5 Timescales to meet both the construction delivery, and secure the funding application on time. Achieving timescales for the works delivery will be regularly monitored and any issues escalated to work to keep activity on track.
- 4.6.6 It should also be noted that we are taking into account previous lessons learnt from other projects and from experience with other contractors. For example training needs to be undertaken to upskill maintenance contractors; and that the RHI funding process is complex and requires support from the contractor.

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 late Autumn 2020. The work will contribute to tackling the climate emergency, reducing fuel poverty and enhancing the efficiency and quality of homes
- 5.2 Following a tender process for these specialist works by direct appointment from the Procurement for Homes framework, the contract is ready to be awarded to Cenergist Ltd for these works.

6 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 £1.610m to two high rise blocks – Westerly Croft and Westerly Rise; and
- b) Note that this follows a direct call off from the Procurement for Housing framework, and that it is proposed that these works will be completed between December 2020 and March 2021, and
- c) Approve expenditure for an additional £100k to enable delivery of the full project.

7 Background documents¹

The [autumn 2020 key decision report](#) for this scheme.

8 Appendices

Appendix A – 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.