



Report of Project Officer

Report to Chief Officer for Sustainable Energy and Air Quality

Date: February 2nd 2021

Subject: Report to seek the authority to commence a procurement exercise to appoint a contractor to deliver heat pump schemes across a number of council sites

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Has consultation been carried out?	<input type="checkbox"/> Yes <input checked="" 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:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary

1. Main issues

- The Public Sector Decarbonisation Scheme (PSDS), a £1 billion funding call overseen by SALIX Finance Ltd, went live to applications on 1 October 2020. Public sector organisations are able to bid for funding to unlock schemes which decarbonise the heat demand of their estate and improve energy efficiency through deploying multiple low carbon technologies. The £1 billion scheme is part of the governments 'Plan for Jobs 2020' commitment to support the UK's economic recovery from COVID-19, supporting up to 30,000 skilled jobs in the low carbon and energy efficiency sectors. Further government-backed grant funding schemes are expected during 2021 which the Council will seek to capitalise upon to further accelerate the work to meet the Council's aspiration to be carbon neutral by 2030.
- This decision report is being brought in anticipation of the Council receiving notification of successful funding applications to reduce timescales for implementation following funding award, and to ensure that the stringent timescales set for delivery are met so as not to void the requirements of the PSDS. This report seeks approval for the commencement of a procurement exercise to appoint a contractor to deliver air source heat pump schemes and ancillary technologies across the council portfolio following a successful PSDS funding bid, and that could also be utilised in the event of future funding awards in 2021 from additional government-backed grant funding schemes.

- The recommended procurement approach takes account of the restrictions on the project, and provides a CPR-compliant route to procuring a contractor to deliver the required works within the timescales put in place.

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

- Sustainable Infrastructure sits as one of the council's key priorities in its Best Council Plan. Our vision is to improve the resilience of the city's infrastructure whilst promoting a more competitive, less wasteful, more resource efficient, low carbon economy. The delivery of heat pump schemes at buildings in the council's estate will contribute to all of these priorities, reducing the council's carbon footprint and energy expenditure.
- The council also strives to be an efficient, enterprising and healthy organisation that makes the best use of its resources, including its money and buildings. Delivering savings on energy bills across the council estate, will ensure the council continues to save money wherever possible, making the best use of its money and its estate.

3. Resource Implications

- The council's Sustainable Energy and Air Quality (SEAQ) service has submitted a number of applications for grant funding from SALIX Finance Ltd's Public Sector Decarbonisation Scheme for the work outlined in this report.
- This report is solely concerned with the procurement of a contractor to install air source heat pumps and deliver ancillary enabling works on the Council's estate as a result of a successful bids for grant funding. The anticipated maximum cost of works identified in this report is £15m. This funding will finance the installation of air/ground source heat pumps and associated enabling works (e.g., building management system upgrades; flow restrictors; variable speed drives) at up to 40 buildings and schools. As this work will be fully grant funded, there are no pressures on the Council's capital budget arising from the procurement. While replacing existing heating solutions with heat pumps will incur slightly higher energy costs, all bids submitted are coupling these installations with solar PV and other energy efficiency measures to generate savings and offset any cost increases, whilst also ring-fencing savings for maintenance.
- The contractor procured will train the Council's Leeds Building Services employees to maintain the assets installed to ensure the assets perform optimally and deliver the decarbonising effect intended. The costs of this maintenance will be provided by ring-fenced savings as a result of the installation of solar PV and other energy efficiency measures.
- The project management of the procurement and project delivery will be delivered by the SEAQ service. As this will be a resource intensive process, an allocation for project delivery will be included within the PSDS bid to support staffing costs whilst delivering the procurement and contract management activity. Salix Finance Ltd have confirmed that the PSDS bid can include an appropriate sum for resources and project delivery proportionate to capital costs.

4. Recommendations

The Chief Officer for Sustainable Energy and Air Quality is recommended to:

- a) Approve the proposed procurement of an external contractor for these specialist works via a direct award, under a competitively procured framework called Procurement for Housing (PFH) utilising Lot:
 - I. Air Source Heat Pump
- b) Note the maximum value for works falling under this procurement will be £15m. The capital required will be provided by central government grant funding. The capital works falling under this procurement exercise will commence in February 2021 and be completed by September 2021.
- c) Note that maintenance of the assets installed as part of these works will be provided by Leeds Building Services.

1. Purpose of this report

- 1.1 In accordance with the council's Contract Procedure Rules (CPRs), this report seeks approval from the Chief Officer for Sustainable Energy and Air Quality to undertake a procurement exercise to appoint a contractor to deliver installation of air source heat pump systems and associated works at a number of sites in the council estate.

2. Background information

- 2.1 At Full Council on 27 March 2019, the council passed a motion declaring a Climate Emergency, placing the climate at the top of its agenda and aiming to stimulate activity across the council and wider Leeds City Region, with the aim of ultimately bringing the city to carbon neutrality by 2030. Bradford, Calderdale and Kirklees Councils have since passed Climate Emergency motions.
- 2.2 A number of schemes are currently in development or already being implemented that will contribute to the council's response to the Climate Emergency, as it continues to aim for a reduced carbon footprint across its services and assets. Detail on these proposals was presented to the council's Executive Board in January 2020.
- 2.3 As part of the council's response to the Climate Emergency it will continue with its programme of estate rationalisation, reducing the size and number of buildings in our portfolio, achieving significant reductions in emissions. For the buildings which remain in its portfolio it will undertake further works via spend-to-save schemes or grant funding to improve energy efficiency, decarbonise heat/electricity supply and reduce the carbon footprint of the estate.
- 2.4 One such technology to deliver significant carbon savings is air source heat pumps which transfer energy from their surrounding environment to provide an alternative to typical gas boiler heating solutions.
- 2.5 In parallel with the above objectives of the council, SALIX Finance Ltd, a government-sponsored body for managing public sector funding for energy efficiency schemes, has launched a £1bn funding call for the decarbonisation of public sector estates, the Public Sector Decarbonisation Scheme (PSDS). Organisations are able to bid for up to 100% funding to deliver schemes which decarbonise the heat demand of their estate and improve energy efficiency, including air source heat pumps. The Council submitted bids for £22.384m for a range of decarbonisation projects. It is likely that further grant funding schemes will be announced by central government in 2021 in light of the original PSDS scheme being significantly oversubscribed. This decision report will

approve the use of this contractor for future relevant works funded by these grant schemes in 2021 up to the value of £15m.

- 2.6 In anticipation of this funding opportunity, the Sustainable Energy & Air Quality team, Leeds Building Services (LBS), Asset Management and a range of other internal and external partners have been working together since early summer 2020 to carry out technical feasibility assessments and identify a range of viable schemes to submit within a significant funding bid.
- 2.7 Following feasibility and design work the Sustainable Energy and Air Quality (SEAQ) service submitted a number of bids to the PSDS for schemes covering various decarbonising technologies, including replacing existing heating sources with air source heat pumps where connection to the district heating network isn't viable.

3. Main issues

- 3.1 The installation of air source heat pumps (ASHP) transition buildings toward a low carbon energy supply. Transitioning its estate to low carbon energy supplies is a key aim of the council in line with its Climate Emergency objectives. Secondary works to enable the installation and/or improve the efficiency of ASHPs such as improvements are often required and are included within the scope of this report. This includes the following technologies:
 - Thermal stores
 - Flow restrictors
 - Variable speed drives
 - Pipework improvements
- 3.2 Where possible, the aim of the Council is to connect buildings to the district heating network, however since a large proportion of the estate is not within a reasonable distance of this network alternative approaches to the decarbonisation of heat are required. In preparation for the PSDS bids, the Council had feasibility assessments completed to determine whether ASHPs are suitable across the corporate and school estate, and to gain firm pricing. These sites have been identified in collaboration with Asset Management, Children's Services, Corporate Property Management, amongst others.
- 3.3 Bids were submitted to the PSDS to cover full capital costs for heat pump systems and enabling works at all sites outlined in Appendix 1. Additional bids may be submitted in 2021 for future funding schemes when announced by central government.
- 3.4 Before work to install heat pumps begins at any site the council will ensure that:
 - Funding is in place and the capital expenditure has the required approvals
 - An asbestos survey has been undertaken covering the appropriate areas of the buildings at which work will take place. Removals will be undertaken if needed
 - Asset Management have confirmed the sites are to be retained as part of the council's Asset Rationalisation Programme in the context of the COVID-19 pandemic's impact on council finances
 - Appropriate Executive and Local Ward Members have been consulted on the schemes

- Corporate Property Management and Leeds Building Services have been consulted and are comfortable with the programme of work and its impact on the estate
- CDM regulations have been followed and notifications to bodies including HSE are made where appropriate.
- Local building managers/stakeholders are consulted to ensure timescales for installation are suitable and minimise disruption to services occupying the buildings.
- An accepted approach to operation & maintenance of these assets is in place

Procurement route options

- 3.5 In order to satisfy the requirements of the PSDS bid, the Council must have a detailed approach to how a contractor will be procured and managed through project delivery. The following options appraisal details the choices of available procurement routes, coupled with reasoning for the recommended approach. The recommended approach also takes into account the following factors which necessitate a procurement approach that can be implemented quickly.
- 3.6 The deadlines set for both bid submission and delivery of works under the PSDS are significantly challenging. The bid opened to applications on 1 October 2020 with a final submission date of 11 January 2021. Projects which successfully receive grant funding must be delivered by 30 September 2021.
- 3.7 Given the tight deadlines associated with the PSDS applications and delivery, it is essential for the council to be able to appoint a contractor at relative speed to provide assurance to SALIX Finance Ltd, the administrators of the grant scheme, that the council can deliver the work in the required timescales upon grant award.
- 3.8 All heat pump works outlined in this report and for which the council receives grant funding will fall under this contract, with the contract having a planned start date of February 2021 and a planned completion date of September 30th 2021.

Option 1 – Leeds Building Services (LBS) deliver in house.

- 3.9 The internal service provider LBS 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.

3.7 Option 2 – Procure a Leeds City Council Contract through Competition.

- 3.10 This route would provide an opportunity to test the market through a competitive exercise. Due to the complex and 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.
- 3.11 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 these timescales would jeopardise the Council's ability to deliver the project by September 2021.

3.8 Option 3 – External Frameworks – Recommended

3.12 A number of externally procured OJEU Compliant frameworks have been considered. These include YORBuild2, Efficiency North, Fusion 21, Northern Housing Consortium and also frameworks targeted specifically for energy efficiency services 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.

In choosing between the framework options, we particularly looked at and focused on 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 standard, providing value for money, and ability to deliver on time. Following this, it was recommended on this occasion that the Procurement for Housing framework (PFH) is utilised with a direct call off.

3.13 From the PfH framework, Cenergist Ltd are ranked highest on the Air Source Heat Pump lot. As a result the following approach shall be taken:

- A contract to deliver air source heat pumps will be directly awarded to Cenergist Ltd. Air source heat pumps will represent in excess of 66% of the value of the contract, with the remainder of works including enabling works to optimise the performance of the heat pump asset and ensure that the building heating networks are altered as required to reduce energy consumption and maintain or improve user comfort. The enabling works will include:
 - Building management system installation/optimisation
 - Heating network flow restrictors
 - Thermal store
 - Plant room pipework upgrades

3.14 This approach has been confirmed with Procurement for Housing that this meets their requirements for use of the framework.

4. **Corporate considerations**

4.1 **Consultation and engagement**

4.1.1 The Chief Officer for Sustainable Energy and Air Quality has been consulted at each stage of the programme from feasibility through to procurement, and will continue to be engaged throughout the procurement process up to and including the stage of delivery of the measures. The Chief Officer has also been engaged throughout the bid process for funding from BEIS, including site identification and technology selection.

4.1.2 Regular updates have been provided on the PSDS bids to the Executive Member for Climate Change, Transport and Sustainable Development as well as the

Executive Member for Resources, and the Director for Resources and Housing. Local ward members will be engaged upon notification of funding award.

- 4.1.3 Asset Management have been consulted directly in the development of the PSDS bid to inform the selection of appropriate buildings to ensure only buildings earmarked for long-term retention are selected.
- 4.1.4 Building managers are being consulted as project delivery approaches to facilitate site surveys and works delivery and ensure any local factors and timescales are taken into account. The SEAQ service is and will be project managing delivery to mitigate as much as possible any disruptive impacts of site surveys and works, and ensure that services are not unduly impacted by these works.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An EDCI screening assessment has been completed as part of the Decarbonisation of the Council's Corporate Estate key decision, this is included as Appendix 2.
- 4.2.2 This EIA screening assessment relates to the award of works only. A further EIA will be included relevant to the specification of works, with appropriate consideration given to the impacts on accessibility and usability of any open buildings whilst works are ongoing. The Staff Disability Network, building staff and any other appropriate stakeholders will be consulted on these plans prior to sign off to ensure engagement with relevant parties has taken place. Operational staff will be providing on-site confirmation that contractors deliver against the equality and accessibility measures set out in their contracts.

4.3 Council policies and the Best Council Plan

- 4.3.1 Sustainable Infrastructure sits as one of the council's key priorities in its Best Council Plan. Our vision is to improve the resilience of the city's infrastructure whilst promoting a more competitive, less wasteful, more resource efficient, low carbon economy. The delivery of energy-efficiency and low carbon supply focused refurbishment of buildings will contribute to all of these priorities, reducing the council's carbon footprint and energy expenditure.
- 4.3.2 In light of the COVID-19 pandemic's impact on the council finances, the works outlined in this report will deliver vital cost savings over the long term for the council. It is hoped that the successful delivery of works outlined in this report will act as the test case for a wider roll out of the technologies across the council in the coming years. This will bring further savings to the council.

Climate Emergency

- 4.3.3 This work directly aligns with the council's Climate Emergency agenda. The delivery of heat pump schemes will contribute to a 21,380 tonnes reduction in the council's carbon footprint and energy expenditure, assisting the council in achieving its goal of carbon neutrality by 2030. If as mentioned above the successful delivery of these works catalyses the implementation of the technologies in the wider council estate, this will bring further carbon reductions for the council.

4.4 Resources, procurement and value for money

- 4.4.1 This decision is being recommended in anticipation of a successful funding bid to the PSDS for the delivery of heat pumps and ancillary building improvements across the Council's corporate estate. The decision will mitigate the risk of not delivering within Salix Finance Ltd's stringent timescales.
- 4.4.2 The heat pumps to be installed at a range of sites across the corporate estate will decarbonise energy supply to the buildings, however in the majority of cases will incur greater energy consumption costs. As a result, wherever possible heat pumps will be installed alongside solar PV assets through the PSDS bid. The energy savings associated from renewable electricity generation from the solar PV assets will more than offset the heat pump costs, with savings being ring-fenced for additional heat pump costs and maintenance of assets. This is an unprecedented opportunity to decarbonise the Council's estate due to utilising grant funding as opposed to the Council's standard spend-to-save schemes. As grant funding with no payback obligation is the funding route for the majority of this work, the Council's revenue budget will benefit from these reduced energy bills immediately following the delivery of the schemes.
- 4.4.3 Internal resources utilised in both bid development and project delivery, in addition to consultancy support provided in support of this work, will be claimed back as part of the application for funding from the PSDS, further strengthening the financial case.
- 4.4.4 There is no cost to the Council for using the Procurement for Housing framework.
- 4.4.5 Given the restrictive timescales the recommendation to use the approved Procurement for Housing framework where cost and quality have already been evaluated, and encompass all works within one lot and contract represents the best procurement approach.
- 4.4.6 Cenergist will train Leeds Building Services operatives on how to maintain heat pump assets

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

- 4.5.1 The recommended procurement route through calling off the Air Source Heat Pumps lot within the Procurement for Housing framework to directly award to Cenergist Ltd. is in line with the council's Contract Procedure Rules, with use of the framework previously being signed off by Legal Services. The Procurement and Commercial Services team has been and will continue to be consulted throughout the procurement process through to contract award and ongoing contract management.
- 4.5.2 The decision contained within this report is a significant operational decision (SOD) as it is a direct consequences of the key decision taken on 6th November 2020 by the Director of Resources & Housing to approve capital injection and spend against renewable energy generation or other energy efficiency measures subject to a successful PSDS funding bid (see the documents for this decision [here](#)). As a result this decision is not eligible for call-in.

4.6 Risk management

- 4.6.1 The framework has been successfully utilised by Housing Leeds for the £3.2 m GSHP contracts at Heights & West and Westerly Rise and Croft.
- 4.6.2 Work arising from the call off contract will be subject to grant funding being awarded.
- 4.6.3 The specification proposed for the work will be reviewed independently by an energy and environmental consultant, as well as the PACS (Legal) team to ensure it meets the council's requirements.
- 4.6.4 Asbestos surveys will be undertaken in advance of works commencing where works will be intrusive. Removal will be undertaken by the council's in house provider where deemed necessary by the detailed surveys.
- 4.6.5 The equipment installed will be covered under warranty within the contract.
- 4.6.6 To mitigate against increasing costs associated with project delivery, the Council will be including contingency funding for each site within the bid as permitted by the PSDS bid requirements. This ensures that in the event of cost increases the Council will not have to utilise its own funding to deliver these projects.

5. Conclusions

- 5.1 This report seeks approval for the commencement of a procurement exercise to appoint a contractor for installation and maintenance of heat pump systems at a number of sites in the council portfolio, including council maintained primary schools. The measures will deliver on a number of key council objectives, promoting a more resource efficient and low carbon estate, reducing the council's carbon footprint and energy expenditure in line with our aims to save money and reach carbon neutrality as an organisation by 2030.
- 5.2 The work will be funded by government grant funding, meaning that all subsequent savings will be guaranteed to directly benefit council's finances. Site identification has been a collaborative effort between multiple council services to ensure the grant funding opportunity is maximised, whilst the proposed procurement route is in line with council CPRs.
- 5.3 Taking all of this into account, approval of this report will allow the SEAQ service to commence a CPR-compliant procurement exercise which aligns with key council objectives and delivers significant carbon reductions and energy savings across the estate.

6. Recommendations

The Chief Officer for Sustainable Energy and Air Quality is recommended to:

- a) Approve the proposed procurement of an external contractor for these specialist works via a direct award, under a competitively procured framework called Procurement for Housing (PFH) utilising Lot:
 - I. Air Source Heat Pump

- b) Note the maximum value for works falling under this procurement will be £15m. The capital required will be provided by central government grant funding. The capital works falling under this procurement exercise will commence in February 2021 and be completed by September 2021.
- c) Note that maintenance of the assets installed as part of these works will be provided by Leeds Building Services.

7. Background documents¹

7.1 None.

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.