

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Councillor Lisa Homan, Cabinet Member for Housing

Date: 12/11/2021

Subject: Whole-home zero-carbon retrofit award of contract

Report author: Rob Kyle, Project Manager, Environment

Responsible Director: Jonathan Pickstone, Strategic Director, The Economy

SUMMARY

A Cabinet Member Decision report of 10th March 2021 approved a procurement strategy to procure a contractor to deliver whole-home zero carbon retrofit for 28 homes in the West Kensington estate, as part of a pilot project in partnership with the Greater London Authority (GLA) and part-funded by the Department of Business, Energy & Industrial Strategy (BEIS).

Approval is now sought to appoint the contractor that has been matched with LBHF via the procurement process (Innovation Partnership) described in the original procurement strategy.

RECOMMENDATIONS

That the Cabinet Member for Housing

1. Notes that Appendix A is exempt from disclosure on the grounds that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) under paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
 2. Approves the award of the Responsive Capital contract to Engie Regeneration Limited from November 2021 to September 2022, for a total potential value of £2,410,000.
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Wards Affected: North End Ward

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	The contractor must comply with the LBHF Social Value policy, sign up to the Portal, and deliver 10% Social Value. The project team have enhanced several Social Value indicators to encourage the contractor to focus on

	<p>local employment and local spend, as well as the recycling of materials and educating local VCS and SMEs in energy efficiency.</p>
<p>Creating a compassionate council</p>	<p>Retrofit has the capacity to radically improve outcomes for those in fuel poverty. 28 households will benefit from the project by securing guaranteed comfort levels for a fixed weekly price. There is significant scope for future programmes to target those most in need.</p>
<p>Doing things with local residents, not to them</p>	<p>The Energiesprong project is consistent with the concept of a Climate Emergency. This has limited the amount of resident engagement that has been possible. Engagement with 36 households from which the 28 pilot properties will be selected is now underway. Retrofit will not be compulsory during this pilot.</p>
<p>Being ruthlessly financially efficient</p>	<p>Participation in this project enables LBHF to secure grant funding for 40% of the costs of the retrofit. LBHF is essentially getting to retrofit 28 properties for the price of 16 – which is excellent value for money. The Innovation Partnership method is competitive and rewards the best value bidders – so should have secured LBHF the best value provider possible.</p>
<p>Rising to the challenge of the climate and ecological emergency</p>	<p>35% of the emissions that LBHF are responsible for come from the energy consumed in heating our stock of c12,000 social houses. Radically improving the energy efficiency of our social housing is critical to achieving our climate emergency goals. The 28-home pilot facilitated through participation in the Energiesprong project will enable LBHF to take a valuable first step towards a comprehensive retrofit programme.</p>

Financial Impact

The HRA Asset Management Compliance Strategy and Capital Programme latest approved budget contains an allocation of £2,510,597 for this work. Apart from small amount of preliminary spend, this budget is available and sufficient to fund the proposed potential contract cost of £2,410,000. This work is to be funded from £912,000 of grant and the remaining balance from the major repairs reserve.

Financial vetting of bidders was carried out by GLA as part of the procurement. A subsequent vetting has been undertaken by Hammersmith and Fulham Council of the provider that the Council has been matched with (Engie Regeneration Ltd). The details are included within Appendix A.

If project is not completed, costs incurred to date may be abortive and would need to be written off. This risk is mitigated through gateway controls which will seek to minimise any abortive costs if the Council could not progress to the construction stage.

There are no leasehold contributions as the pilot solely involves tenant properties.

Legal Implications

This report relates to the approval to the award of the Responsive Capital contract to Engie Regeneration Limited from November 2021, for a total potential value of £2,410,000. The contract value is below the EU works threshold, so the Public Contracts Regulations do not apply.

The Contract has been checked by Sharpe Pritchard and the LBHF in-house legal team. Contract Standing Orders (CSOs) requires a formal contract to be drawn up for execution as a deed. Officers shall work with Legal officers to prepare the contract documentation. As the Contract is above £100,000 it will be sealed as a deed.

This is a direct award from the Innovation Partnership framework. Under the CSOs, this call-off contract is a High Value contract. Under CSO 19, a call-off from a compliant framework satisfies the Council's procurement requirements for High Value contracts, provided that the rules of the Framework have been followed.

The decision to approve the direct award is for the relevant Cabinet Member pursuant to CSO 21.1.

As the value of the call-off contract is above £300,000, the call-off contract award is a Key Decision and must be submitted to Committee Services for publication on the Council's website. In addition, a copy of the completed (dated) call-off contract must be uploaded to the Council's Contracts Register along with a copy of the award report.

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Background Papers Used in Preparing This Report – none

DETAILED ANALYSIS

1. Following the CMD of 10th March 2021, a fully compliant procurement process was initiated to put into practice the Procurement Strategy as set out in that report.
2. The GLA ran a procurement process for an Innovation Partnership ('Retrofit Accelerator Homes Innovation Partnership') using the special procedure for this set out in the procurement legislation, (using Selection Questionnaire and proposal phases). This process selected 5 solution providers to be appointed to the Innovation Partnership.
3. Bidders were evaluated against their:
 - Ability to deliver the specification
 - Commercial factors:
 - Fee proposal
 - R&D cost plan (lump sum)
 - Component costs (i.e., key people costs)
4. Appointment to the Innovation Partnership was based on a combined price and quality evaluation with a quality / price ratio of 70%/30% in favour of quality. Commercial evaluation utilised the bidder's tendered overheads, profit, and exemplar projects (for preliminaries, plant/equipment, and staff rates). The overall quality and price score were combined to produce a total score for each tender and ranked accordingly. The ranking determined which bidders got the first choice of housing provider projects.

5. Through this ranking and selection process, LBHF has been matched with Engie Regeneration Limited. This is a Direct Award from the Innovation Partnership framework.
6. Due to delays with procurement, there is now pressure to complete the project within the agreed Innovation Partnership timelines. The design stage is expected to be completed by March 2022 in order to progress to the construction stage. Draft contracts have been issued and LBHF are working to finalise the details. To minimise delays the governance process is being started whilst LBHF work with Engie to finalise this.
7. Financial vetting of bidders was carried out by GLA as part of the procurement. LBHF Finance have also carried out vetting of the provider that LBHF has been matched with.
8. As part of the Innovation Partnership contract, Part 1B.1 – Client Brief, s105 specifies that the provider is required to achieve 10% social value in line with LBHF's social value policy. The project team have enhanced several Social Value indicators to encourage the contractor to focus on local employment and local spend, as well as the recycling of materials and educating local VCS and SMEs in energy efficiency.
9. The contractor has committed to the social value requirement, however due to time pressure the final measures have not yet been agreed. The project lead will now work with the social value officer and contractor to agree these and incorporate into them into the contract. The contract will not be signed until this is completed.

Pricing

10. While bidders did submit pricing information (see exempt appendix 1 for details of price) and there were differences in the bidders pricing, the greatest determinant of the price that LBHF will pay is the design solution that is agreed for the 28 properties.
11. The terms of the call-off contract are that there is a gateway at the end of the design phase where LBHF will decide if it wants to pursue the design solution produced by Engie Regeneration Limited. The call-off contract features the maximum price per property that LBHF will pay, set before the tender. This maximum price per property is £85,000. Engie Regeneration Limited must develop a design solution that can be delivered for a price no greater than £85,000 per property. Any excess costs during the build stage are 100% at the contractor's risk. Any savings below the agreed price are shared 50:50. What this means is that a contract value of £2,410,000 can be set as the maximum price that will be paid unless there are changes to the project scope. This includes a one-off design fee of £30,000.

Risks

12. Requirements of the Innovation Partnership dictate that to progress to the construction stage, the design stage needs to be completed by March 31st, 2022. Due to delays with procurement, there is now increasing pressure to

deliver this within these timescales. An inherent risk is that if project is not completed, costs incurred may be abortive and would need to be written off. The design stage gateway controls and manages this, however the design stage fee and associated administrative costs would be written off if the Council could not progress to the construction stage.

Next Steps

13. No leaseholder consultation needs to be carried out as all 28 pilot properties are tenant properties.
14. Draft contracts were issued at the start of the procurement process. LBHF will work with Engie to finalise these and tailor them to the specific project and have them engrossed prior to being executed as a deed. The aim is that this process should take no more than two weeks as there are tight timelines for completion of the initial design phase.
15. Mobilisation of the new contractor will commence after the statutory standstill period following contract award has finished. There is no TUPE transfer and no IT integration. Mobilisation will focus on enabling the contractor to commence the design phase whereby they design and cost a bespoke solution for the 28 properties that are part of the pilot.

Options appraisal

16. Option 1: Sign a contract with Engie Regeneration Limited. The advantages of this option are that the design phase of the pilot can be mobilised straight away and the project can stay on track to deliver the retrofit works within allotted time period. By using the supplier provided by us through the Innovation Partnership, LBHF will be able to draw down the 40% project grant funding. The only disadvantages would be if LBHF had any concerns about the contractors that we have been matched with, and this is not the case.
17. Option 2: Do not sign a contract with Engie Regeneration Limited. This would cause a lot of disadvantages in terms of delaying, possibly terminating, the retrofit pilot on the West Kensington estate and would lose LBHF access to the 40% funding. There would only be advantages if LBHF felt it could procure a better value contractor through its own competitive tender process, but the Procurement Strategy already considered this option and determined it was not a viable one for LBHF to pursue.
18. Option 3: Seek a different contractor from the GLA Innovation Partnership. This may be possible if LBHF has reason not to want to use Engie Regeneration Limited, though LBHF would need a very good reason, and none has been identified. The terms of the Innovation Partnership and the call-off contract already enable LBHF to exit the contract at the end of the design phase if LBHF does not want to pursue the design solution produced by Engie Regeneration Limited. In these circumstances the Innovation Partnership would attempt to find another contractor for LBHF, to prepare another design.

Reasons for Decision

19. To support the decarbonisation of 28 properties on the West Kensington estate – a valuable first step in achieving the Council's Climate Emergency objectives.
20. The recommendations outlined are based on a competitive tendering process in line with the Public Contracts Regulations 2015 (specifically an Innovation Partnership, delivered by the GLA). The final tenders received were evaluated by the GLA's evaluation team, which included representation from LBHF, against published evaluation criteria. The Contractor recommended for appointment was identified as the most economically advantageous tenderers having applied the evaluation criteria.

Equality Implications

21. There are no anticipated negative implications for groups with protected characteristics, under the Equality Act 2010, by the approval of the proposed contract set out in the recommendations.

Risk Management Implications

22. An inherent risk of all capital schemes is that if projects are not completed, costs incurred may be abortive and would need to be written off. The gateway process provides an important role in seeking to control and manage risks of write off if the prototype project is not completed. Successful delivery of the prototype project contributes positively to the management of environmental climate change risk in accordance with the stated Council Value.

Risk implications verified by: Ray Chitty, Head of Insurance, Tel:07739315565

Climate and Ecological Emergency Implications

23. Retrofitting H&F's housing stock to reduce its carbon emissions is an essential part of the Council's goal to be net zero carbon by 2030 and the whole house retrofit approach is an important strategic project in relation to this.
24. The outcomes of the project will have a strong positive impact on the climate emergency and align closely with the Council's priority 'Rising to the Challenge of the Climate and Ecological Emergency.' It is recommended that H&F proceed with this project.

Implications verified by: Hinesh Mehta, Strategic Lead – Climate Emergency, Tel: 07960 470 125

Local Economy and Social Value

25. This report seeks the approval to award a contract of £2,410,000 to Engie Regeneration Limited. The 10% social value requirement was included in the procurement documentation and the contractor has agreed to deliver this. Although definitive commitments are not finalised at this stage due to time constraints in securing funding from BEIS, the commissioners have highlighted priorities areas to the contractor. Main social value outcomes identified are around local employment and local spend, as well as the recycling of materials and educating local VCS and SMEs in energy efficiency.

26. It is recommended the project lead will work closely with H&F's Social Value Officer and the contractor to agree on a delivery plan, soon after the award. The contractor will be required to set targets on Social Value Portal (SVP) and is responsible to pay the relevant fee in accordance with the procurement documentation, for effective monitoring and reporting. It is advisable the Commissioner will work closely with legal to ensure appropriate social value clauses are included in the contract, so that the Council can enforce its right to compensation if social value commitments are not delivered.

Implications completed by Ilaria Agueci, Social Value Officer tel. 0777 667 2978

LIST OF APPENDICES

(Exempt) Appendix A – evaluation scores