

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet

Date: 18/07/2022

Subject: Procurement strategy for Phase 2 of the 'Preparing for net-zero' programme

Report of: Cabinet Member for Finance and Reform & Cabinet Member for Climate Change and Ecology

Report author: Sarah Reardon, Governance & Commissioning Officer and Grace Farnham, Property Transformation Project Manager

Responsible Director: Jon Pickstone, Strategic Director of Economy

SUMMARY

Responding to the Council's aspiration to become a net-zero borough by 2030, work is underway to deliver retrofit projects to decarbonise the Council's non-domestic portfolio. Public funding is now sought to enable an ambitious programme of decarbonisation (retrofit) works.

The strategy recommends accessing the RE:FIT framework which - co-owned and managed by the GLA and Local Partnerships – enables the appointment of a decarbonisation contractor to complete energy assessments, the results of which will be essential for the Council's application to the Government's Public Sector Decarbonisation Scheme (PSDS) in September 2022. The framework will also enable the Council to appoint the same Contractor to deliver and install the identified decarbonisation measures, although there will no obligation to proceed with the 'works' phase under the RE:FIT framework at this stage.

The Council will apply for an estimated total of £8m grant income which, if successful, would cover 100% of the project costs of the buildings put forward in the application, avoiding Council borrowing and investment. Should less than 100% funding be achieved, the Council will need to decide between staying within the financial envelope of grant funding offered, meeting any shortfall in project costs (£2.5m provision made in the approved 2022-23 Corporate Planned Maintenance Capital Budget) or turning down the grant funding and doing nothing. A detailed contract award report will be produced upon the funding being approved and will provide detailed assessments of potential financial risks and benefits of the scheme.

RECOMMENDATIONS

1. That Cabinet approves the proposed procurement strategy to access the REFIT framework via a mini-competition which would allow the Council to award contract for the supply and installation of decarbonisation measures at

H&F non-domestic sites (in the region of 39 properties) for a contract value of up to £8m.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	The installation of low carbon technologies in public buildings will allow residents across the borough to benefit from greener and more efficient buildings
Creating a compassionate council	This project, directly contributing to the Council's efforts to tackle climate change, demonstrates compassion by taking action to protect the future health of H&F's people and environment
Doing things with local residents, not to them	This activity is part of a strategy which has been informed and scrutinised by the resident-led 'Climate Strategy Implementation Group'
Being ruthlessly financially efficient	Use of this framework is critical for a successful application to PSDS; securing grant funding offers H&F a financially efficient route to decarbonising its non-domestic portfolio. In addition, the framework has other financial benefits, including: (1) free consultant support for the initial stage of property analysis and benchmarking, (2) competitively priced IGPs
Taking pride in H&F	The development of decarbonisation proposals will enable the Council to lead by example in delivering a cleaner and greener borough
Rising to the challenge of the climate and ecological emergency	The development of decarbonisation proposals (and subsequent delivery of low-carbon technologies) will significantly reduce the Council's scope 1 and 2 emissions, thereby directly helping H&F to combat the C&EE

Financial Impact

The proposed works Contract for the actual supply and installation of decarbonisation measures is non-committal and the Instructions to Tender will make clear that the award is subject to H&F being successful in its application to secure grant funding.

Should less than 100% funding be achieved, the Council will need to decide between staying within the financial envelope of grant funding offered, meeting any shortfall in

project costs (£2.5m provision made in the approved 2022-23 Corporate Planned Maintenance Capital Budget) or turning down the grant funding and doing nothing.

A detailed contract award report will be produced upon the funding being approved and will provide detailed assessments of potential financial risks and benefits of the scheme.

Ariana Murdock, Principal Accountant, Corporate Finance, 27 May 2022

Verified by Emily Hill, Director of Finance, 29 June 2022

Legal Implications

The Council has power to undertake these works under powers given by the Localism Act 2011. The works also support the objectives of the Public Sector Decarbonisation Scheme to reduce emissions from public sector buildings.

The works of installation will be a public works contract for the purposes of the Public Contracts Regulations 2015 (PCR) and the requirements for advertising and competition in those regulations need to be observed. The RE:FIT framework was procured in accordance with these rules and the Council is empowered to use it. The use of this framework is therefore compliant with the PCR.

The contract for the installation works will be a high value contract for the purposes of the Council's Contract Standing Orders. The use of a suitable third party framework is a compliant means of procuring a high value contract under CSO 18.

An award under the RE:FIT framework will be on the basis that the contractor should prepare an Investment Grade Proposal (IGP). There will not be a legal obligation to award the works. It will therefore be possible to discontinue the process if the grant application is unsuccessful and, if it is successful, to undertake a benchmarking exercise to ensure that the Council is achieving good value for money.

John Sharland - Senior Solicitor (Contracts and procurement).

Email: john.sharland@lbhf.gov.uk

Dated 30 May 2022

DETAILED ANALYSIS

Background

1. Responding to the Council's target for the Council to become a net-zero borough by 2030 and the Council's sixth value of 'rising to the challenge of the Climate and Ecological Emergency', a cross-council working group (led by the Economy) is planning and delivering a pipeline of retrofit projects; the projects make up the

'Preparing for Net Zero' programme, which aims to decarbonise the Council's non-domestic portfolio by the end of the decade.

2. The programme approach – developed in consultation with the resident and Council-led 'Climate Strategy Implementation Group' CSIG – aims to retrofit all of the Council's freehold buildings under the organisation's operational control (160+ properties), to a net zero standard; delivery will be a logistically complicated and resource intensive process, and has been costed at £26-45m. Delivery of the programme will be staggered, with this contract encompassing the decarbonisation of approximately 39 buildings (incl. 9 school buildings at 5 school sites) and costed at £8m.
3. In order to finance the identification, sourcing and installation of decarbonisation at these sites, it is essential for the Council to make a successful bid to the fourth iteration of the Public Sector Decarbonisation Scheme (PSDS3b). The application will request 100% of contract costs to be covered by the grant funding for the group of selected buildings (in the region of 39 sites), thereby removing the need for a capital investment budget from the Council. However, should less than 100% funding be achieved, the Council will need to decide between: (1) staying within the financial envelope of the grant funding offered, (2) meeting any shortfall in project costs or (3) turning down the grant funding and doing nothing. As there is no obligation to enter into the works contract this issue can be addressed after the results of the grant application are known to H&F and will be covered in the award report.
4. Although the grant application window has not yet been confirmed, applications are expected to open in September. It is anticipated that this phase of funding will be oversubscribed and the most competitive yet, with funding allocated on a first-come-first-served basis. As such, it is critical that by the time the funding window opens, H&F is fully prepared for the application process.
5. In order to give H&F the best possible chance of winning PSDS3b funding, the Council needs to be able to achieve the following by the commencement of the grant application period in August/September:
 - i) Complete the required governance for procurement strategy
 - ii) Complete the mini-competition process
 - iii) Complete the required governance and approvals for the award of a call off contract for HLAs and energy audits to be conducted, the results of which will inform the grant application.
6. In light of these requirements, Procurement, Property Officers, Facilities Management and the Climate Team in the Economy and Environment Directorates have been assessing different procurement routes, which has involved:
 - Reviewing the service benefits and disbenefits of different frameworks
 - Speaking to other London boroughs about their experience of different frameworks and PSDS
 - Conducting soft-market tests

7. This proposed procurement strategy involves conducting a mini-competition via the RE:FIT framework, and entering into a call off contract to appoint a Contractor to deliver High Level Appraisals (HLAs) (which identify potential measures and the associated high level costs and energy savings); this stage will then inform the grant application and Investment Grade Appraisals (IGPs) (detailed proposals which sets out the Energy Conservation Measures (ECMs) to be installed, tonnes of CO2 to be saved each year and detailed costs), before entering into a works contract to deliver the identified carbon reducing installations. The scope of the works contract will have been determined by the assessments carried out under the above paragraph. There is no obligation to proceed with the 'works' phase under the RE:FIT framework at this stage, and it is proposed to carry out a benchmarking exercise to ensure that value for money is being achieved.
8. The Council will apply for an estimated total of £8m which, if successful, would cover 100% of the project costs of the buildings put forward in the application, avoiding Council borrowing and investment. Should less than 100% funding be achieved, the Council will need to decide between staying within the financial envelope of grant funding offered, meeting any shortfall in project costs or turning down the grant funding and doing nothing. As there is no obligation to enter into the works contract, this issue can be addressed after the results of the grant application are known to H&F and will be covered in the award report. The tender documents will be drafted in a way that allows the Council to reduce the scope of the works to match the grant funding.
9. The PSDS funding application window has very tight deadlines which means Councils must decide swiftly whether to award surveying and retrofit contracts, or not, after the grant money is won. In recognition of short timescales, and to enable the council to remain agile in its approach and respond to the tight deadlines set by BEIS for the grant application process, we are requesting the approval of this Procurement Strategy. This will enable the Council to run the mini-competition and award a call off contract in sufficient time to apply for grant funding, thereby remaining competitive with other boroughs.
10. Project delivery is anticipated to be resource intensive and complex, particularly given the current condition of the market . In addition – in light of the tight timescales and competitive nature of central government's funding opportunities - the Council will need to be able to respond to new funding rounds quickly by awarding surveying and retrofit contracts at pace.

Reasons for Decision

9. The Council needs to develop decarbonisation plans and award a works contractor in order to meet its commitment to net-zero carbon by 2030; the organisation does not possess the in-house expertise to develop Investment Grade Proposals, or deliver decarbonisation measures in its properties and as such, a contractor will need to be appointed to develop these proposals (which outline viable low-carbon technologies, associated costs, and expected carbon/financial savings etc.). This process needs to be progressed at pace, to

ensure H&F is ready for the next PSDS application window (estimated in August/September 2022).

Contract Specifications Summary

10. The contract specifications are driven by the IGPs produced by the Contractor which will be agreed by H&F after the grant funding application has been confirmed. The IGPs will at minimum incorporate the technologies which are eligible through the grant scheme which has not yet been published. Based on previous years this typically includes:

Category One	Technologies that directly contribute to the heat decarbonisation of a building by installation of a low carbon heating. For example, heat pumps and connections to low carbon heat networks.
Category Two	Technologies that do not directly contribute to the heat decarbonisation of a building but reduce overall energy demand and so will support future heat decarbonisation. For example, insulation, glazing, ventilation.*
Category Three	Technologies that do not reduce carbon emissions but enable future heat decarbonisation projects to take place – these technologies are exempt from the requirement to meet the £500/tCO2 lifetime criteria. For example, metering, electrical infrastructure, battery storage.*
Category Four	Technologies that are only permitted if: (a) they are used to replace coal-fuelled heating systems or oil-fuelled heating systems, AND (b) if, in Salix’s reasonable opinion, it has been demonstrated that it is not viable for a low-carbon heating system to be installed within the building as a replacement for the coal-fuelled heating or oil-fuelled heating system. For example, gas-fired CHP and gas boiler replacement projects would fit into this category provided they meet the above conditions.

11. The contract term will be 12 months, plus a further 2 extension periods of 12 months each. This is to allow for all the works to be completed depending on the size of the successful contractor, their ability to mobilise quickly, and work on several sites at once.

Procurement Route Analysis of Options

12. The following options are included in the analysis of different procurement routes:
13. RE:FIT Framework: This is the recommended option which consists of conducting a mini-competition using a compliant framework that will allow the

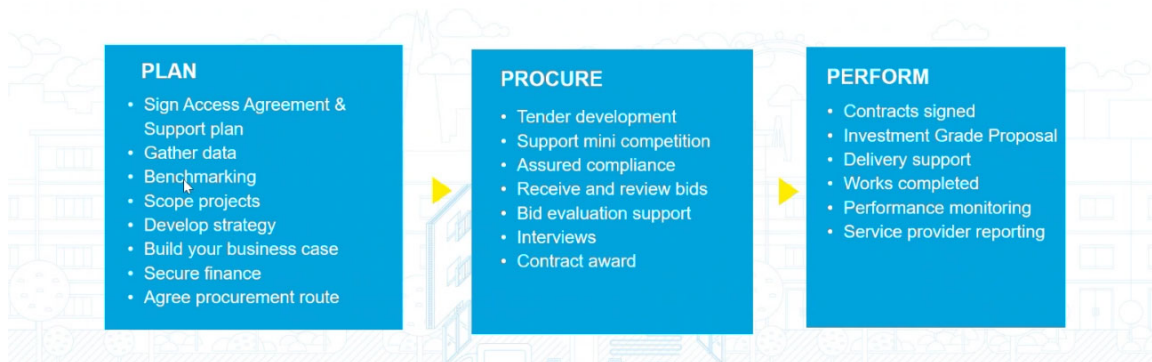
Council to apply for grant funding to decarbonise in the region of 39 H&F properties.

14. Fusion 21 or alternative Framework: Another option explored is to use a Framework supplier such as Fusion21 Decarbonisation Framework to define the requirements for each of the 39 buildings, and then to use another framework to award the works to be delivered. This option was discounted due to the time it would take to develop 39 detailed specifications (one specification for each building, and potentially several for each building depending on the number of installations required and complexity of each building, plus drawings) due to the limited timeframes in which the Council can apply for PSDS grant funding in 2022.
15. Open Tender: This option was discounted due to the time required to undertake a fully regulated procurement process which would take longer, and mean the Council could not apply for grant funding in 2022.

The RE:FIT framework

16. The Framework offers a compliantly tendered framework and enables:
17. Fast and efficient tendering, through the use of Mini-Competition tendering templates, to enable bidding to focus on the key requirements of a project and meet the grant application deadlines.
18. H&F to access central government grant funding to support the Council on its journey to becoming net zero carbon by 2030.

Steps of a RA-W project



Market Analysis, Local Economy and Social Value

19. The decarbonisation market is slowly becoming more established. Currently the market of providers with the relevant experience and knowledge is relatively small but more contractors are starting to expand into this area and obtain PASS2035 accreditations. It is not anticipated the Council will receive a high number of tenders, but the process is anticipated to be competitive.

20. Social Value will be incorporated into the award process and the successful Contractor will be required to make social value commitments. The appointed suppliers on previous decarbonisation schemes have committed to delivering 10% social value (as part of the contract), predominantly through spend in the local supply chain (e.g. businesses based in Hammersmith and Fulham, including micro, small and medium enterprises (MSMEs)).

Risk Assessment and Proposed Mitigations

Please see below key risks and mitigations:

Risk	Risk Score	Mitigations
Legal challenge from unsuccessful tenderer.	L	Legal and procurement advice has been taken throughout to ensure compliance.
Any delay to delivery of the project and applying for grant funding.	M	The REFIT framework is proposed as its mini-competition route allows a swift evaluation process which will permit the Council to apply for grant funding.
Prices may be higher than anticipated/grant funding may not cover all prices submitted.	M	The Instructions to Tender will make clear that the award is subject to H&F being successful in its application to receive grant funding. The works Contract is non-committal.
Projects do not comply with funding requirements, thereby resulting in loss of grant funding and the Council having to bear project costs.	M	The Contract will make it explicit that project designs must meet funding criteria. Additionally, the H&F project team will regularly review project progress and submit monitoring reports to Salix (as carried out in previous rounds) to ensure compliance with eligibility criteria; if design changes are required, change request forms will be submitted to Salix and approved before implementation
The project management of approx. 39 buildings will be a resource intensive process.	M	Capital delivery function for the non-domestic portfolio to be developed in Facilities Management. The first project manager is now in place.

Timetable

21. Please include an estimated timetable of the competition process through to contact commencing.

Activity	Deadline/timeframe
Key Decision Entry (Strategy & Award)	May
Contracts Assurance Board (Strategy)	1st June
Political Cabinet Submission Deadline	30/05/22

Cabinet Meeting	18/07/22
Start of call in	19/07/22
Call in ends (3 days)	22/07/22
Launch of mini-competition	July
Closing date for submissions	Mid-August
Evaluation of Tenders	August
Approval to award call off services contract (Assistant Director)	August
Call off Contract is executed and High Level Appraisals are conducted by the Contractor which informs the grant application. Anticipated £80k services contract.	September
Grant application is made	September
Investment Grade Appraisals are conducted by Contractor	1 st October – 31 st December
Grant application result is disclosed to H&F and contract is finalised (including social value)	January 2023
Contract Assurance Board	February 2023
Cabinet Member briefing, approval of award report & call-in period	February 2023
Works Contract finalised and executed	February 2023
Works Contract mobilisation and implementation	March 2023
Anticipated Works Contract Commencement date	April 2023

Selection and Award Criteria

22. The Council are proposing to conduct a mini-competition using the RE:FIT framework. It is anticipated that the contract would be awarded on the basis of the following criteria:

Call-Off Award Criteria	Weighting
Quality criteria (overall)	
1. Project management	15%
2. Analysis and design	20%
3. Installation phase	15%
4. Performance delivery	10%
5. Achieving strategic goals and wider benefits	15%
6. Pricing approach	15%
Price criteria	
7. Price	10%
Total	100%

23. It is proposed to weight the mini-competition at 90% quality and 10% commercial, as the tenders submitted will not fully reflect the final contract price until the result of the grant funding application is received which will be after the mini-competition has been completed. Once the evaluation of the mini-competition is complete the Council will enter into a call off contract with the highest scoring tenderer and that Contractor will then conduct High Level

Appraisals which will identify all the potential measures and high level costs and energy savings. The results of the high-level appraisal will inform the grant application which will be made by H&F.

24. After the grant application is made Investment Grade Appraisals (IGPs) will be conducted by the Contractor which will be undertaken whilst H&F are waiting for the results of the grant application. IGPs are detailed proposals which set out the Energy Conservation Measures (ECMs) to be installed, tonnes of CO2 to be saved each year and detailed costs.
25. After the results of the grant application are known to H&F and the IGPs are conducted, the Council will review value for money achieved. Should less than 100% grant funding be achieved, the Council will need to decide between: (1) staying within the financial envelope of grant funding offered, (2) meeting any shortfall in project costs or (3) turning down the grant funding and doing nothing. This will be addressed in the award report.
26. Social Value will be a mandated requirement of contract award. 10% of the total final contract value will be required in the monetary equivalent of social value commitments to H&F. Alongside this, the Contractor will need to demonstrate their ability to deliver these commitments to a satisfactory level. This will be a requirement of contract award and will be incorporated in a similar way to the approach taken to H&F direct awards. This is because price evaluation will not take into account the final prices which may be impacted by the amount of grant funding obtained; therefore, the contract value – and the social value requirements – are subject to change and will not be known until the grant funding has been confirmed.

Contract Management

27. Dedicated project management resource has been recruited to the Economy's Facilities Management team to oversee retrofit works, including contract management. Additional resource will be recruited as retrofit activity scales.
28. Robust project and contract management standards will include, at minimum, fortnightly meetings with the contractor to assure design and implementation details.
29. Regular communication will be maintained with site occupants to ensure they have a positive experience of the process. The commercial property service will provide support if relocation is necessary or where property arrangements require reworking in light of works.
30. Social Value will be managed as part of the contract management responsibilities, alongside the rest of the contract.

31. Regular attendance at industry events will ensure the team are up to date with best practice retrofit contract / commercial management.

Equality Implications

32. An initial EQIA has been completed and no negative impacts have been identified. However, a subsequent EQIA will be completed once the Council has the results of the grant funding and the detailed IGPs to ensure an accurate assessment can be made. This will be included in the award report.

Risk Management Implications

33. The report recommends carrying out a competitive process, by means of a mini-competition, which is in line with the Council objective of being ruthlessly financially efficient. The report sets out a number of risks associated with the procurement, which officers will need to monitor and take corrective action where appropriate. Robust project and contract management arrangements will be required to ensure the successful delivery of the programme in line with the funding conditions.

David Hughes, Director of Audit, Fraud, Risk and Insurance, 27 May 2022

Climate and Ecological Emergency Implications

34. This procurement strategy recommends conducting a procurement process which will result in grant funding by central government to award a contract which will reduce H&F's carbon emissions and contribute towards the H&F intention of achieving net zero by 2030.

Hinesh Mehta – Head of Climate Change, 30 May 2022

Local Economy and Social Value Implications

35. It is the council's policy that all contracts let by the council with a value above £100,000 commit to social value contributions that are additional to the core services required under the contract.
36. Paragraph 25 explains that social value contributions be a consideration in individual call-offs of a value of £100,000 or more. In these cases, the selected supplier should propose social value measures with a proxy social value of at least 10% of the value of that contract.
37. Social value measures committed by the winning bidder should be included as conditions in the contract agreement with financial remedies sought for non-delivery. It is advised that the winning bidder contact the Economic Development team to help them design a detailed delivery plan for the agreed measures. Council services are available to support the winning bidder to plan, deliver and measure social value contributions

Comments added by: Paul Clarke, Economic Development Officer, 30 May 2022

Consultation

38. The strategy to decarbonise H&F non-domestic assets has been developed in consultation with the resident-led Climate Strategy Implementation Group (CSIG). It is intended that the Service Management for Education, Operations and Children's Service will consult with Head Teachers about the plans to procure these requirements. It is also intended that consultation will be carried out with third sector organisations occupying H&F buildings.

LIST OF APPENDICES

None