

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet Member for Housing and Homelessness, Councillor Frances Umeh

Date: 20 March 2024

Subject: Approval to procure a contractor to undertake an energy efficiency pilot at Philpot Square

Responsible Assistant Director: Richard Buckley, Assistant Director of Building and Resident Safety

Report Authors: Billy Reid, Head of Mechanical and Electrical

SUMMARY

We are seeking approval to procure a contractor to replace the existing gas communal heating and hot water system, which has reached the end of its operating life, with an air source heat pump (electric) system and in tandem undertake climate change adaptations (e.g., thermally insulate the fabric of the building) at Philpot Square, Peterborough Road, London, SW6 3HT. The system serves 72 households.

We seek to use the Procurement for Housing Framework: 'Decarbonisation and Retrofit' – Lot 2 'Air Source Heat Pumps' to appoint a capable design and build contractor. We will call-off this framework via a mini-competition. The total projected cost of the project will be circa £4.2 million of which up to £1.2 million of grant funding is being applied for to support.

This report has been assured by Contracts Assurance Board on 01st November 2023 and the recommendations have the support of the Departmental Management Team including the Director of Housing and the Assistant Director, Residents and Building Safety.

RECOMMENDATIONS

1. To note that Appendix 1 is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
2. To run a mini-competition via the 'Procurement for Housing- Decarbonisation and Retrofit framework', Lot 2 'Air Sourced Heat Pumps' for an energy efficient pilot project contract valued at circa £4.2 million.

Wards Affected: All

Timetable

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

Key Decision Entry (Strategy)	30/03/2023
Contracts Assurance Board (Strategy)	25/10/2023
Cabinet Member Sign off (Strategy)	16/11/2023
ITT issued	01/03/2024
Evaluation	01/05/2024
Contracts Assurance Board (Contract Award Report)	05/06/2024
Cabinet Member Sign off (Contract Award Report)	22/06/2024
Contract Mobilization	01/07/2024
Contract Sealing	15/08/2024
Contract Commencement date	01/09/2024

H and F Values

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	The contractors will be required to factor in Social Value as the tender will apply a 20% weighting to social value delivery. Social value emphasizes local people and place initiatives and therefore this should have a positive impact on local wellbeing prosperity.
Creating a compassionate council	The project will deliver warmer, more cost-effective homes to residents through the fabric upgrades. Air quality in the area should also be positively impacted with the removal of gas emissions.
Doing things with local residents, not to them	Comprehensive engagement to ensure the council's residents have a clear understanding of the works to be undertaken and the long-term benefits this will provide.
Being ruthlessly financially efficient	This contract will be awarded via a Framework competition. Competition amongst a high number of potential bidders stimulates price competition and therefore this enhances the chance of value for money. At procurement

	evaluation stage, all tendered rates will be considered/benchmarked against our knowledge of market costs to ensure that value for money contract costs.
Taking pride in H&F	The upgrades to Philpot Square will see it become the first net zero carbon ready building through retrofit. The building will be showing H&Fs commitment to its Climate goals and ensure it continues to lead the way on addressing the climate challenge.
Rising to the challenge of the climate and ecological emergency	The building currently uses more the twice the amount of energy it should. The works will mean the block is net zero carbon ready and aligns with the target of 2030.

Financial Impact

The HRA (Housing Revenue Account) 4-Year Capital Programme contains a budget allocation of £10.480m for assorted Gas Work heating schemes.

It is anticipated that the estimated contract value of £4.2m will be funded with £1m from this allocation, £2.7m from the Climate Emergency Funding plus an additional £0.500m of grant that the service is in the process of applying for.

The costs of this project are anticipated to be wholly capital in nature, as the upgrade of the building fabric and upgrade to the communal heating from gas to air source heat pumps will extend the asset life by improving the energy efficiency of the buildings.

Once an appropriate contractor is selected via the framework, the necessary financial checks will be conducted to ensure the financial solvency and stability of the contractor.

Implications prepared by: Llywelyn Jonas, Principal Accountant – Housing Capital, 30/08/2023

Implications verified by: Danny Rochford, Head of Finance (HRA & Economy), 31/8/23

Legal Implications

The report seeks approval of a strategy to award a contract for upgrading building fabric and installation of new boilers. The value of the contract means that it is below the threshold for the Public Contracts Regulations 2015 to apply. There are therefore no statutory provisions governing this procurement.

This will be a high value contract for the purposes of the Council's Contract Standing Orders. The use of a suitable third-party framework in accordance with its terms is a compliant method of procurement under the CSOs. The requirements of CSO (Contract Standing Orders) 18 will therefore be met by undertaking a mini competition under this framework. The Procurement for housing framework allows for procurement by way of mini competitions. The provisions in the framework governing the conduct of these competitions will need to be observed.

This is a key decision under the Council's constitution. It will therefore need to be included in the key decision list on the Council's website.

John Sharland, Senior solicitor (Contracts and procurement)

Dated 20 July 2023

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Background

Thirty-two of our current communal heating and hot water systems have surpassed their operational life expectancy and are at a critical stage of potential failure. The high volumes of maintenance required to ensure an acceptable level of delivery to our residents only adds to our on-going revenue budget pressures and resident service costs.

The service pipework from the gas boiler room to the properties, mainly sheltered schemes, are of an age where failures are constant and impact on our more vulnerable residents, is high, particularly during the winter. As an example, there can be extended periods where the system is off-line whilst the engineers investigate, locate, diagnose and obtain bespoke parts. The volume of calls into the council can and has added undue demand on our call centre and impacts on our ability to provide a planned coordinated service rather than a high impact reactive service.

As our existing systems are over 30 years old and do not benefit from modern design, technology and functionality to deliver heating and hot water 24/7, 365 days of the year. They provide over capacity during the summer (no localised control measures within the properties, infrastructure) and requiring continuous attention to deliver the necessary outputs through the winter (boilers, and pumps),

Within our housing revenue account (HRA) 12-year asset management capital strategy there is an allowance for the replacement of these failing systems, which will reduce the additional revenue budget demands and reduce the impact on the delivery team's capacity to provide a well-structured planned service rather and provide a consistent, reliable heat and hot water source to our residents.

Net zero by 2030:

Three quarters of CO₂ (carbon dioxide) emissions from homes come from heating and hot water, mostly powered by gas. To achieve carbon net zero by 2030, most of H&F's homes must be retrofitted with energy efficiency measures, and gas boilers replaced with low-carbon heating. Whilst the council does not envisage replacing most of its boilers until later this decade, communal boilers can last for 25 years and therefore to replace with a new gas boiler would lock emissions in for that time. It is important we mitigate the number of emissions where viable now, but also begin to pilot solutions that can be used for the wider stock in future.

Given this in 2022 the Council commissioned a feasibility study for Philpot Square where the analysts explored a range of options to reduce energy demand and eliminate fossil fuel use. The assessment followed the PAS2035 standards for retrofit (Best Practice Standard recognised by the Government for the application of grants), to propose pathways to net zero carbon emissions. This recommends measures to be implemented simultaneously or sequentially as budget and logistics allow, as well as mitigate potential risks.

The assessment compared the lifetime carbon emissions of different proposed measures and solutions, taking into consideration a 'fabric first' approach (upgrading the energy efficiency before considering the heating source). The recommendation was to upgrade the wall insulation, loft insulation and add in solar panels, alongside a full Air Source Heat Pump (ASHP) system. Increasing the energy efficiency will allow the ASHP to operate at maximum efficiency and will ultimately save over 450,000 kwh of energy and over 200 tonnes of carbon emissions per year.

In addition to this to fully decarbonise the building, upgrading the gas cookers to electric cookers will be necessary. Approximately 50 cookers will need to be upgraded at an estimated unit price of £750 plus installation fees.

A key part of the assessment was also to ensure that tenant energy bills did not increase as part of the work. Upgrading buildings to electric heating can sometimes increase bills where the building is not insulated sufficiently. Including the fabric measures allows the ASHP to operate more efficiently, using less energy which mitigates the risk of increasing bills. In addition these flats will be fitted with individual controls (not currently in place) meaning residents can regulate their heating consumption are only charged for the energy that they use. Not only does this give them more control but can reduce overuse of heating.

As a result of the assessment and given the urgent nature of replacing the old gas boiler, it was decided to put forward Philpot Square as a pilot project for upgrading to low carbon heating in one of our communal systems.

Resident Engagement

The move to carbon net zero emission heating and hot water systems brings with it many changes to the existing set up for residents. The introduction of thermal insulation will reduce the need for heating and residents will be able to control their own heating unlike now. Upon approval we will commence full engagement with

tenants and leaseholders, setting out how the technology works, how the works will be undertaken, the timeframes and what will be done to minimise impact. There will be a named project manager and resident liaison officers throughout the life of the project enabling day to day communication. We will also monitor and support the system thereafter. The technology will introduce automated remote monitoring.

Reasons for Decision

By procuring a supplier to undertake a pilot at Philpot Square we will attain a case study which will enable a deeper review of the council's plan to achieve its 2030 commitments, reduce emissions now and deliver best service to its residents.

Contract Specifications Summary

2. See table below for a description of the works or services being procured:

Contract	Contract value	Description of works/services
JCT project contract.	Circa £4,200,000	Upgrading and replacement of heating systems and relevant fabric and building control assets.

3. This contract extension will be for a maximum duration of 12 months.

Procurement Route Analysis of Options

4. There are a range of procurement options available to procure providers of PPM (Planned Preventative Maintenance) works:

- Competitive tender
- Mini competition from a suitable framework or Dynamic Purchasing System (DPS)
- Direct award from a suitable framework

5. These options provide varying levels of assurance that the resulting providers are value for money. Competitive tender is the best guarantor of value as it is open to the whole market, whereas a mini-competition or direct award from framework provides a limited degree of assurance (from the fact of the competition required to get onto the framework in the first place).

6. The disadvantage with the first two options is that the time it takes to deliver them. Competitive tender can take up to 4 to 6 weeks to seek tenders and evaluate the results, before 3 or 4 weeks required for the contract award Governance. Mini competition is only a little bit quicker.

7. Direct award from a suitable framework would be the quickest option. However, given the complexity and value of the contract, this may limit the opportunity for cost competition and the possibility of bidder competition around quality and innovation.

8. Due to the limitations raised in paragraph 6, we believe that a mini competition via a relevant framework would offer the best combination of outcomes in relation to time, cost, quality and innovation. Although an open competition is still a plausible route, given the specific and complex nature of the works being commissioned, we believe that a Framework will provide the most relevant and effective route to market.
9. Upon research of relevant Frameworks, we believe that the Procurement for Housing Framework 'Decarbonisation and Retrofit' – Lot 2 'Air source heat pumps' will offer a suitable route to market as this Framework/ Lot specification meets our commissioning requirement of design and build.
10. As these works will not be subject to Public Notice, leaseholders and the residents' association will have the opportunity to nominate the name of an alternative contractor that they would like the organisation to approach for tender. If a nomination is received and the contractor both meets our basic eligibility criteria and is interested in bidding, we will have to go to Competitive Tender.

Market Analysis, Local Economy and Social Value

11. If there are no nominations for alternative contractors, there are a number of relevant Frameworks to approach in the market. We require a framework that enables a relevant specification and a high number of suppliers. On that basis, we chose the Procurement for housing framework, as this framework satisfies this requirement.
12. The Council's Social Value policy requires that all contracts greater than £100,000 in value must include a 20% evaluation weighting to social value approach. This procurement strategy will comply with this requirement.

Risk Assessment and Proposed Mitigations

13. The Framework we use offers an initial level of risk assessment and assurance regarding price and quality as suppliers need to qualify in order to join the framework Lot. We will also run a competition amongst these suppliers in order to further ensure that from contract award stage, we have a supplier that is likely to possess characteristics which ensure safety quality and value for money outcomes.
14. Upon contract award, we will use a JCT project contract. The client team will ensure that the monitoring and management processes and 'levers' of this contract are proactively actioned to ensure appropriate risk assessment and assurance in relation to health and safety, time, quality and price outcomes.

Selection and Award Criteria

15. The evaluation will consist of a 60% quality and 40% cost weighting.
16. There will be an overall 20% social value evaluation weighting (which falls under the definition of quality).

17. Price mechanisms are described in the table below:

Contract	Pricing mechanism
JCT Project Contract.	Schedule of Rates

Contract Management

18. The standard of workmanship and service will be monitored and measured by the Mechanical & Electrical (M&E) client team. Contractors will need to act as both Principal Designer and Principal Contractor to provide design and works reports evidencing the design and works undertaken. The service will be allocating a supervisor resource to project manage the works as Client, and they will be reporting directly into the Head of M&E. The contractor will be required to provide the Head of M&E with a time assessment of the works prior to commencement and this will be scrutinised. The M&E team will call every resident once the works have been completed to ensure satisfaction, and if there are any issues no payments will be certified until they are resolved.
19. There will be resident engagement before, during and after with provision of a single point of contact for residents and on-site resident liaison support. Consultation with residents is set out in section 26
20. There will be monthly performance meetings in which Key Performance Indicators (KPIs) will be reviewed. KPIs will include:
- Attendance of appointments to investigate the leak/back surge etc, and complete specific tasks
 - Emergency attendances within 4 hours
 - Submission of a formatted works report for every job, proving quantity and quality
 - Resident satisfaction
 - 10% of all works will be audited. If snagging is required, the contractor has 10 days to resolve and evidence.
21. Social Value will be monitored by the Social Value Portal (SVP). Contractors will be registered with the SVP (and required to pay the annual fee) at the point that contract spend exceeds £100,000.
22. Annual inflationary uplifts will not be applied as the contracts will not exceed 12 months.

Risk Management Implications

23. The report recommends approval of a procurement strategy to undertake a mini competition for a works contract, in line with the objective of being ruthlessly financially efficient. The contract will support a pilot project at Philpot Square to upgrade the building fabric and to change the communal heating from gas to air source heat pump (electric). This will support the objective of

rising to the climate crisis and contributing to being carbon net zero. The report identifies risks related to the procurement and contract award along with appropriate mitigations.

David Hughes, Director of Audit, Fraud, Risk and Insurance, 6 October 2023

Climate and Ecological Emergency Implications

This is a pioneering clean heat project and a major milestone in decarbonisation of the council's estate. The project is expected to deliver CO2 savings. Gas heating and cooking is a key contributor to residents' exposure to air pollution; replacing these with electric plant and appliances offers significant health benefits to residents.

Verified by: Jim Cunningham, Climate Policy and Strategy Lead, 6 October 2023

Local Economy and Social Value Implications

24. It is a requirement that all contracts let by the council with a value above £100,000 propose and commit to social value contributions that are additional to the core services required under the contract. These contributions must amount to at least 10% in value of the price of the contract proposed.
25. Paragraph 10 of this report commits to including a 20% social value weighting to the tender.
26. It is advised that the commissioner works with Legal to ensure appropriate social value clauses are included in the contract, so that the council can monitor and manage the winning supplier's performance against social value.

Paul Clarke, Social Value Officer, 19/10/23.

General Consultation

27. Secure tenants and leaseholders will be consulted with to comply under section 105 of the Housing Act 1985. This consultation should include estimates of proposed costs and their impact upon service charges. This consultation will be undertaken by M & E team and take the form of methods such as:
 - a. Leafleting,
 - b. Letters,
 - c. Contact with any relevant tenants' association.

Completed by: Ciaran Maguire, Head of Home Ownership Service

Service Charges Liability

28. There are presently 25 leaseholders across Philpot Square. Of these 25, 5 have formally registered a sublet. However, our Corporate Ant-Fraud team advises that, as of November 2023, another 5 were not living at the property. These are presently considered unregistered sublets. An additional property,

which has not registered a sublet, is a lettings company. This means there are 14 owner-occupiers, 1 lettings company, and 10 non-resident owners at the building.

29. These leaseholders are required to contribute towards any costs the Council incur in maintaining the building. These proportions range from 2.818% to 4.540%, with an average liability of 3.556%. In broad terms, these leaseholders are also required to contribute towards the cost of any service provided across the estate with liabilities ranging from 1.085% to 1.580% and an average liability of 1.440%.
30. The works to the fabric of the building, previously estimated at £1.2m across the estate, would be divided by block and calculated against the block liabilities. The works to install an ASHP, previously estimated at £3m, would be recharged by estate liabilities. This would return average individual contributions of around £66,500.
31. It is considered by Counsel that those projected contributions, pitched at their full level, would not be considered reasonable service charges in law. There is currently no statutory duty upon local authorities to implement the government's Net Zero strategy. The Climate Change Act 2008 and Climate Change Act 2008 (2050 Target Amendment) Order 2019 (SI 2019/1056) imposed legally binding targets for greenhouse gases emissions upon the UK government. None of these duties are presently imposed directly upon local authorities. However, the current heating and hot water system has reached the end of its useful life and requires replacement. Hammersmith & Fulham Council recognising a climate change emergency is fully committed to reducing carbon emissions at the earliest opportunity through adopting low carbon technology and insulating buildings to reduce the need for heating.
32. The Council intends to access funding from central government to contribute towards the cost of the work. It is hoped that funding will be available through Wave 2.1 of the Social Housing Decarbonisation Fund (SHDF). The scale of the funding will be contingent on eligible works, owner-occupier status, household income, the property's current EPC rating, the building's wall type, and the lessee's projected contribution. There will need to be an assessment of each household's circumstances to ensure the correct level of funding is released.
33. The Council also intends to release funding through the Heat Network Efficiency Scheme (HNES).
34. If central government funding is accessed for the specific purpose of carrying out these works, the 14 owner-occupiers will have their individual contribution capped to £15,000 under the Social Landlords Mandatory Reduction of Service Charges Directions 2014. This would reduce the contribution from the 14 owner-occupiers from an average of £66,500 to £15,000.
35. The mandatory caps do not apply to those 10 units that are not owner-occupied and it does not apply to the one unit that is owned by a lettings company. These 11 homeowners will therefore be required to pay their actual proportion

of costs. However, as Counsel has warned that these service charges would likely not be considered reasonable in law, the Council intends to invoke the Social Landlords Discretionary Reduction of Service Charges Directions 2014. This would allow the authority to set service charges at such level it deemed reasonable (as required under Section 18 of the Landlord and Tenant Act 1985).

36.

It is considered that those properties that do not qualify for the mandatory reduction should have their individual contributions capped at £24,000. The reasoning for this is explained below.

- Non-resident leaseholders will be required to pay £14,000 for a like for like replacement of a gas boiler even if this pilot does not go ahead.
- Until recently landlords were going to be required under 'minimum energy efficiency standards' (MEES) to upgrade their property to an 'energy performance certificate C' (EPC) before 2025, spending a maximum amount of £10,000 to achieve this. Whilst this requirement was recently delayed by the current government, the works at Philpot Square will achieve at least an EPC C and result in a net zero ready building. This will future proof all properties from any forthcoming standards. MEESs is very likely to be adopted by future governments and will be imperative to reaching the government's 2050 net zero target, therefore at some point landlords will need to upgrade their properties.
- As well as future proofing the properties, leaseholders will have access to state-of-the-art heating system that gives them full control over how they heat their properties. It is also highly likely that the property prices will see an increase due to the upgrade. Whilst this cannot be accurately quantified, work done in the Development team estimated that new build properties with high levels of energy efficiency would likely see an increase of 5% in value. Residents are also likely to see a reduction in energy bills of about 20%.
- H&F will be subsidising the cost for leaseholders by 65% (£43,000). Alongside the likely increase in property price and savings in energy bills this is considered by the H&F team to be reasonable. Leaseholders may also be able to qualify for interest-free repayment periods of up to four years (subject to status) or a discretionary loan to repay the sum over a longer period.

37. Once all residents have been consulted under Section 105 of the Housing Act, statutory consultation under the Commonhold and Leasehold Reform Act 2002 will need to be undertaken with leaseholders and the residents' association. This will require a Stage 1 Notice of Intention explaining what works were needed and why they were necessary. Recipients will also have the opportunity to nominate an alternative contractor. Once this had completed, the contract could proceed to tender. Once those tenders had come back and been scored, a Stage 2 Landlord's Proposal Notice would be issued with a description of works, bids from the two highest scored contractors, and a breakdown of costs.

38. The leases across Philpot Square are not entirely uniform and the legal authority to install ASHP infrastructure within the home can only be assessed on probability. The leases will also preclude any recharge for works within homes that are not deemed part of a wider circulatory system. It is considered however that effective S105 consultation and the capping of service charges will increase buy-in and minimise opposition.

*Completed by: Ciaran Maguire, Head of Home Ownership Service,
19th of October 2023.*

LIST OF APPENDICES

Exempt appendix - Philpot's Square Feasibility Report