	<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">CABINET</p> <p align="center">28 APRIL 2014</p>
<p>PROCUREMENT OF ENERGY CONSERVATION MEASURES FOR COUNCIL BUILDINGS</p>	
<p>Report of the Leader of the Council and of the Cabinet Member for Housing – Councillors Nicholas Botterill and Andrew Johnson</p>	
<p>Open Report</p>	
<p>Classification: For Decision</p>	
<p>Key Decision: Yes</p>	
<p>Wards Affected: All</p>	
<p>Accountable Executive Director: Nigel Pallace, Executive Director for Transport and Technical Services</p>	
<p>Report Author: Dr. Vassia Paloumbi Carbon Reduction Manager, TTS - Building and Property Management</p>	<p>Contact Details: Tel: 020 8753 3912 E-mail: vassia.paloumbi@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. RE:FIT is a framework agreement that has been let by the Mayor of London on behalf of the public sector within the Greater London area. The RE FIT framework relates to the installation of energy efficient materials and technology into the fabric and the energy equipment and controls of public buildings. This aims to allow authorities to make substantial cost savings, reduce energy bills and maintenance costs as well as lowering the carbon footprint of their buildings.
- 1.2. The West London Alliance (WLA) is working in partnership with a number of boroughs in order to collaboratively run a RE:FIT programme which will aim to achieve an estimated 21% energy savings per annum across the participating boroughs.

2. RECOMMENDATIONS

- 2.1. That approval be given for the Council to participate in a the West London Alliance (WLA) programme to work collaboratively on a “RE-FIT” programme, the aim of which is to enhance energy savings.
- 2.2. That the Council accesses the RE:FIT framework agreement let by the Mayor of London
- 2.3. That the Leader of the Council and the Cabinet Member for Housing (acting on advice from the Director of Building and Property Management) award a contract to an Energy Services Company (via a mini-competition from the Mayor of London’s framework agreement) for installation of energy conversation measures in Council buildings including Council owned hostels.
- 2.4. That authority be delegated to the Director of Building and Property Management to appoint the chosen supplier to carry out the Investment Grade Proposal (IGP) for the buildings in Phase 1 of RE:FIT in order to better assess the potential of suitable energy reduction projects for 2 buildings, the associated costs and the carbon savings, the cost of which is expected at less than £2,500 for each building, and that this revenue expenditure be funded from Housing Services for housing-related properties only.
- 2.5. That a further Cabinet report be prepared in due course seeking approval to proceed with Phase 1 of the programme dependent upon the findings of the IGP.

3. REASONS FOR DECISION

- 3.1. It is common knowledge that UK energy market is a highly volatile futures commodity market. Ever increasing energy demands combined with reliance upon fossil fuel based energy production in the UK mean that energy costs will continue to increase over time.
- 3.2. The annual energy costs for H&F’s offices (excluding housing, schools buildings, street lighting) are estimated at: approx. £200,000 for gas and approx. £700,000 for electricity.
- 3.3. Due to the growing financial pressures, the Council in 2009 approved the Carbon Management plan which focused on energy efficiency and conservation in order to reduce increasing energy costs. Energy efficiency technologies were identified and in some cases installed between 2010- 2013 resulting in cost and energy reductions as well as decreasing the Council’s carbon footprint. The Plan was projected to deliver annual revenue savings of around £75,000 with a cumulative saving of just over £500,000 by March 2016, and a cost avoidance of over £3.5 million which would occur if business continued as usual. A number of projects were however never carried out due to budget

constraints or changing legislation. The Council's carbon management plan is currently in the process of being reviewed with assistance from Carbon Trust.

3.4. The West London Alliance (WLA) is working in partnership with the following London Boroughs for a collaborative approach to RE:FIT (see *Section 4: Introduction and background for more information on RE:FIT*)

- London Borough of Barnet,
- London Borough of Ealing,
- London Borough of Hammersmith and Fulham,
- London Borough of Harrow,
- London Borough of Hounslow,
- Royal Borough of Kensington and Chelsea and
- London borough of Westminster.
- London Borough of Brent are engaged in the process but have no properties in phase 1 (they may opt to be part of future phases)

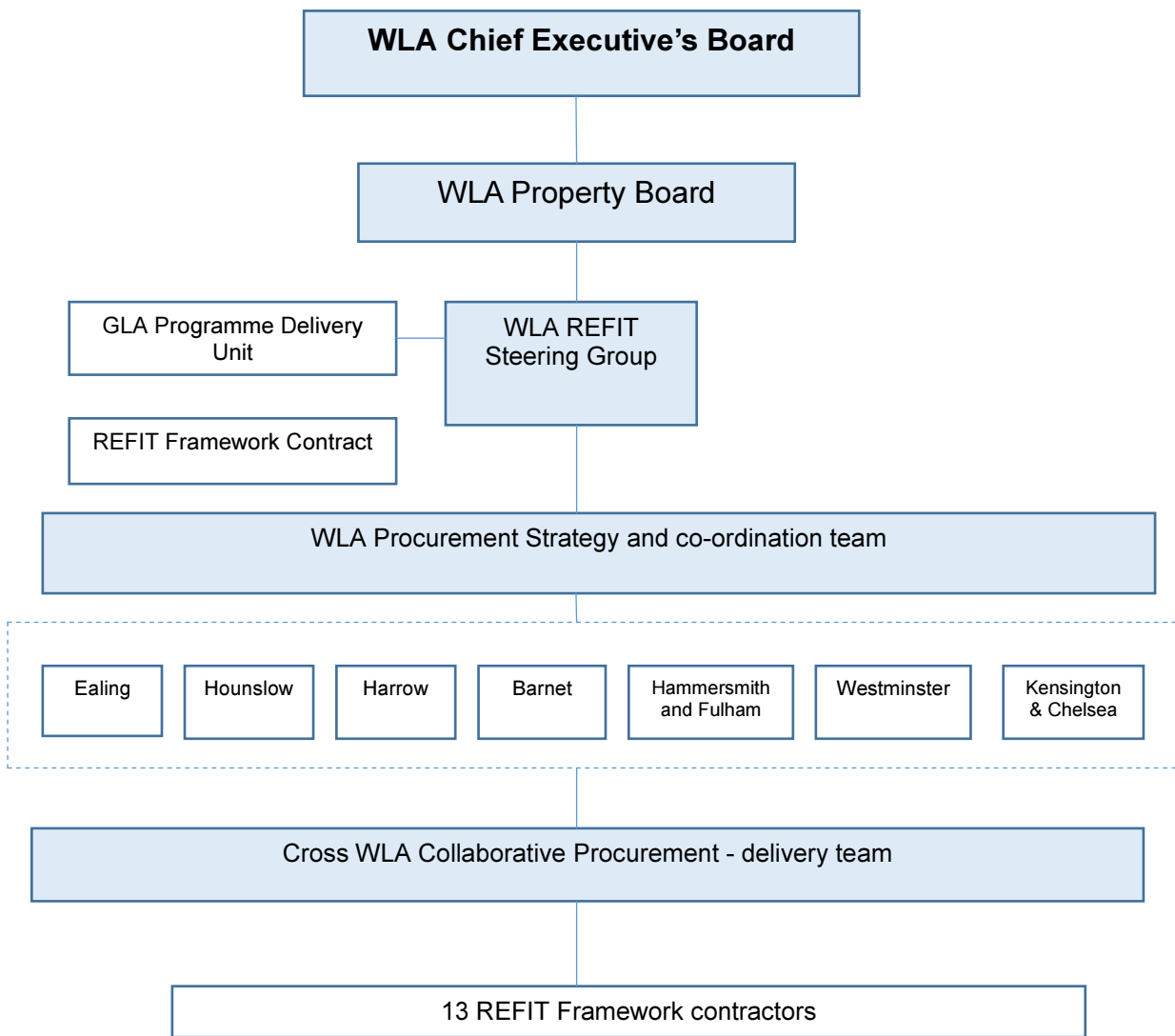
3.5. The benefits of taking a collaborative approach to RE:FIT are:

- Economies of scale will attract keener pricing;
- Continuity of work over a sustained period offered;
- One procurement exercise for a number of boroughs is more cost effective than multiple repetitive procurements and companies will not have to repetitively expend time and cost by continually bidding for work;
- Benchmarking between boroughs becomes more relatable;
- Working through, on a continuous basis, a pipeline of buildings in a systematic fashion will improve the effectiveness and efficiency of the process;
- The WLA can have more way over the successful contractor in terms of quality, delivery, programme, equipment and installation costs;
- Greater influence to ensure that the successful contractor meets our collective aspirations with regard to SME engagement, apprentices and social value.

3.6. The West London Strategic Property Board approved the collaborative RE:FIT programme at their meeting on 10 July 2013. It was also agreed at this meeting that Hounslow would be the lead borough for the purposes of the procurement. The programme was subsequently endorsed by the West London Alliance Chief Executives' Board on the 22 October 2013. (Appendix 1).

3.7. The WLA RE:FIT programme is currently in procurement and it is expected that a preferred Energy Services Company (ESCO) will be selected in May 2014 with building work commencing in June 2014.

3.8. The project organisation structure is shown below:



4. BACKGROUND AND INFORMATION

- 4.1. RE: FIT has been running since 2009 and is aimed at meeting the Mayor of London's overall target of reducing carbon emissions in the capital by 60% from 1990 levels by 2025. Up to date 102 London public sector organisations have participated in RE:FIT. These include 28 of the 33 London Boroughs, 21 NHS Organisations and 53 other organisations, such as central government, museums and education organisations. The RE:FIT programme has so far retrofitted 245 of London's public sector buildings, generating estimated CO₂ savings of 28,000 tonnes per annum from investment of £38m.
- 4.2. RE:FIT has been initiated by the London Mayor who has established a framework agreement for use by public sector organisations to call off from. In addition the programme is supported with an EU funded Programme Delivery Unit (PDU) providing skills, knowledge and resources at no cost to the participating authorities.

- 4.3. The RE:FIT contracting framework agreement has been set up in accordance with the Public Contracts Regulations 2006 (as amended). This framework agreement provides public sector bodies within London with ready access to a panel of (13) Energy Service Companies (ESCOs). These ESCOs are capable of delivering and installing energy efficient technologies, materials and equipment into existing buildings in order to reduce energy consumption and reduce their carbon footprint. The successful ESCO is required to provide a guaranteed business case for achieving a required level of energy and carbon savings depending on the level of investment needed.
- 4.4. The procurement process has already been completed which has resulted in the aforementioned panel of 13 ESCOs. Call-off from the framework must be carried out through a further mini competition exercise.
- 4.5. Utilising the Framework Agreement offers the following benefits:
- Provides a cost neutral ‘spend to save’ solution for public sector bodies
 - Reduces procurement process times and costs by using a pre-selected framework of suppliers
 - Minimises risk - energy savings are guaranteed by the ESCOs over the term
 - Removes the risk associated with borrowing due to the structure of the contract
 - Provides standardised contracts, toolkit and supporting documents
 - Allows access to the latest and most efficient energy saving products and processes from specialist suppliers
 - Provides Value for Money and economies of scale by creating opportunities for buyers to “bundle” work across a portfolio of buildings to maximise the benefits from retro-fitting ECMs
 - Reduces cost of purchasing Carbon Credits by reducing energy consumption and carbon emissions from buildings
 - Offers support from a dedicated Programme Delivery Unit at the GLA
- 4.6. The business case will be secured contractually with the ESCO, which will predicate the investment made and the minimum savings to be achieved by confirming a defined period of investment payback. The payback period will be based on the level of energy cost savings that will accrue from the new installations. Any cash savings overage caused by better than predicted performance of the new efficiency installations or higher than expected inflationary pressure on energy market prices will fall to the benefit of H&F
- 4.7. Retrofitting buildings can result in lower maintenance and operational costs including frequency of replacing equipment and inefficient systems.
- 4.8. Access to this support is at no cost, with the GLA securing Turner & Townsend’s services through funding from the European Commission under the European Local Energy Assistance (ELENA) programme to

support the programme, as the dedicated programme delivery unit (PDU). This support will be crucial to deliver the WLA project, from familiarisation and initial scoping through to specification and procurement close and covers a broad range of measures to reduce CO₂ emissions, including insulation and building fabric improvements, replacement or upgrading of mechanical and electrical services equipment.

- 4.9. It is worth noting that the Council does not currently have a major works programme for energy efficiency across the hostels estate. As hostels are now managed by HRD they are not part of the current contract with Amey Community Ltd for Total Facilities Management energy works which other council offices may qualify for.

5. THE WEST LONDON ALLIANCE (WLA) RE:FIT PROGRAMME

- 5.1 The WLA collaborative approach will be adopting a portfolio approach across multiple boroughs (the participating boroughs) on a year on year basis using a single procurement competition for each phase of the programme.
- 5.1. A carbon reduction scoping study has already been undertaken on behalf of WLA for Barnet, Brent, Ealing, Hammersmith and Fulham, Harrow and Hounslow boroughs. This study identified current activities and opportunities within each borough, one of which is the collaborative approach to energy efficiency and carbon reduction in buildings that the boroughs hold responsibility for. It highlighted the GLA's RE: FIT programme as the most appropriate delivery vehicle for such an approach.
- 5.2. The lead procurement borough (in the first instance Hounslow) will run the RE:FIT mini competition against the established GLA RE:FIT Framework contract for each successive phase. The Legal Protocol and Guidance on Collaborative Protocol will be adopted for this project when required.
- 5.3. An invitation to express an interest will be sent to all 13 ESCOs who are on the Mayor of London's framework agreement. Those ESCOs who express an interest will then have the opportunity to bid for the services and work. The procurement process will involve a mini-competition and those invited will be able carry out site visits to the initial buildings selected by the boroughs prior to them submitting their tender. These will be reviewed and evaluated by a cross borough evaluation team. The selection of one ESCO for all the boroughs will be based on their technical solutions, guaranteed savings, supplier capability and approach, pricing and costs.
- 5.4. Once the preferred ESCO has been selected by the evaluation team, a services contract will be entered into by each borough and this will require the ESCO to carry out an Investment Grade Proposal (IGP) for each building.

- 5.5. Each borough will make their own contracting arrangements with the chosen ESCO. Therefore there is limited legal input required and the boroughs have not been required to sign a legal collaboration letter for this procurement.
- 5.6. The Service Contract will contain a written Guarantee the effect of which will be that if savings are not realised through the solution they offer, then the ESCO will either provide compensation to the borough to make up the difference between the guaranteed savings figure and the actual figure or they will install additional energy conservation measures so that the guaranteed savings are achieved.
- 5.7. Once this IGP is accepted, a standard JCT Design and Build Contract will be entered into by individual boroughs and the ESCO to cover the delivery of the works.
- 5.8. There are a number of options available for funding the REFIT work, namely
- Self-funding - from reserves
 - Using capital projects funding
 - Commercial loans - banks or via the ESCOs
 - SALIX interest free funding -
 - London Green Fund - Amber Investments

To date most authorities have funded their investment from either their own reserves. All boroughs in the WLA collaborative projects are currently exploring options for funding. Following the IGP for buildings in Phase1, a cabinet report will be prepared which will include the actual capital cost required, the guaranteed savings and the preferred option for funding.

- 5.9. A preliminary project plan to this programme is included below:

Key Milestone	Provisional Dates
Procurement programme	
ITT available on portal	27 November 2013 COMPLETED
Initial site visits period	9-13 December 2013 COMPLETED
Site visit period for further site visits	6-10 January 2014 COMPLETED
Tenderer clarification deadline	21 January 2014 COMPLETED
Deadline for tender submission	3 February 2014 COMPLETED
Evaluation of tenders including clarification period completed	21 February 2014 COMPLETED
Interviews with Tenderers	25 February 2014 COMPLETED
Service Contract awarded	March 2014 COMPLETED

Key Milestone	Provisional Dates
Phase 1 Buildings	
Investment Grade Proposals completed	Between March and May 2014 IN PROGRESS
Investment Grade Proposals approved by Authorities	To be confirmed

6. PROPOSAL AND ISSUES

- 6.1. A range of corporate buildings and premises have been considered for this initiative and the selection of the most appropriate mix for those retained building to be put into the programme, and the phasing of that, will be critical to ensure that the maximum cash and carbon benefit can be derived as quickly as possible, whilst ensuring that the whole portfolio of retained properties is still attractive to ESCO to bid for and they can be refurbished at affordable prices.
- 6.2. The following H&F buildings have been identified and proposed to be included for the collaborative WLA programme which will be phased out over at least 3 years:
- Hammersmith Town Hall
 - Bagley's lane (Depot Offices)
- Council owned hostels(all Housing Revenue Account):
- Seagrave
 - 456 Uxbridge Road
 - Castletown Hostel
 - Spring cottage
- 6.3. Buildings have been chosen through discussions between the Carbon Reduction Team, Hostel Management (HRA) and WLA and Programme Delivery Unit, based on their energy consumption, absence of existing works programme and suitability. The list is not exhaustive and it is subject to change as buildings can be taken out or added to it. The actual capital investment required for each phase will be identified at each phase following an Investment Grade Proposal (IGP) for the properties in that phase. The carbon reduction manager leading this project will need to be informed for any plans of asset changes on an ongoing basis.
- 6.4. A desktop study carried out by the PDU, which was based on actual energy consumption figures for all the sites shown above has produced preliminary findings which suggest the associated cost and carbon savings for the WLA programme as well as H&F (for the properties preliminary identified as options):

	Total Energy Savings p.a. (kWh)	Total Savings p.a. (%)	Est. Capital Investment (£)	Max. Payback (yrs)	Est. Cost Saving p.a. (£)	Est. CO ₂ Saving p.a. (tCO ₂)
TOTALS FOR ALL WLA	4,407,000	18%	£2.297M	8.3	£276,800	1625
H&F	844,054	18%	£519,755	9.54	£54,506	374.55

- 6.5. More detailed figures and suggestions of the exact energy interventions for the H&F buildings will arise from the IGP which is estimated at £2-3 k per site.
- 6.6. Savings will be achieved in terms of cash, energy and carbon and are determined by a building's energy usage, building size, type and usage. The estimates are conservative at this stage as evidence from previous tendering exercises indicates that cash savings can be increased by a range of between 4% and 10%.

7. OPTIONS AND ANALYSIS OF OPTIONS

- 7.1. The options for financing the programme are currently being considered by the Carbon Reduction Manager in consultation with the Director of Finance and Resources (HRD), Hostel Improvements Team, Director of Building and Property and WLA. The preferred option is the use of capital project fund.
- 7.2. A more precise financial analysis and the associated costs and carbon savings for Phase 1 following the IGP will form a subsequent report with recommendations for funding and projects.

8. CONSULTATION

- 8.1. A communication programme between TTS and HRD has commenced. A meeting was attended by the Director of Finance and Resources for HRD and Carbon Reduction Manager to discuss the project. A further meeting is planned between Director of Building and Property Services and Executive Director for Housing and Regeneration to discuss this report and the proposed programme.
- 8.2. The project will be presented to HRD DMT where the long term plans of the proposed buildings will be discussed in more details.
- 8.3. HRD have outsourced their maintenance and facilities management obligations to MITIE since November 2013. MITIE have been informed about the programme and will be kept informed as they will also be

looking at improving the energy efficiency of buildings. A programme of work has not yet been decided and there is no specific budget for a carbon/ energy reduction programme.

- 8.4. The Carbon Reduction Manager has also attended Hostel improvement meetings to understand possible barriers and issues with the recent outsourced FM contract for Housing to MITIE and is in communication with hostel management.

9. EQUALITY IMPLICATIONS

- 9.1. A completed Equality Impact Assessment must accompany the report where required. This will be published alongside the report. Any key/relevant equalities issues must be included here, in the body of the report.

10. LEGAL IMPLICATIONS

- 10.1. It is noted that it is proposed to access a framework agreement set up by the Mayor of London. The client should verify that the OJEU notice for the framework agreement permits the Council to access the agreement.
- 10.2. The call-off procedure under the framework agreement is being run by the WLA, led by LB Hounslow, but under the proposed arrangement the Council will enter into direct contractual arrangements with the successful provider.
- 10.3. Implications completed by: Cath Irvine, Senior Solicitor (Contracts) ext. 2774.

11. FINANCIAL AND RESOURCES IMPLICATIONS

- 11.1. The initial survey costs to scope out the REFIT work for phase one of the project requires a revenue cost of up to £5K. This will be funded by Housing and Regeneration for HRD properties.
- 11.2. Hostel related assets listed below will be surveyed and a report drawn up with the recommendations on the energy efficient works required by the REFIT programme. There is no obligation at this point for the Council to award any contract for REFIT works as a consequence of the initial investment in the survey / feasibility. Further analysis of any further investment into the Phase 1 project will take place if that is deemed to be the best course of action. A savings and investment review will be undertaken if necessary on production of the report.
- 11.3. Implications verified/completed by: Jade Cheung, Finance Manager - Capital and telephone number 0208 753 3374).

12. RISK MANAGEMENT

- 12.1. Energy cost increases: By reducing energy consumption, this project will protect Hammersmith & Fulham Council to some extent from increased energy prices.
- 12.2. Timing of works: Installing energy efficiency measures before winter is a key driver, so that the benefit of the measures can be experienced immediately.
- 12.3. Default by selected supplier: The Framework Agreement requires a performance bond of 20% of the cumulative cash value of future savings guaranteed under the agreement, which provides one protection. The suppliers who have been awarded a place on the Framework Agreement have all been scrutinised for financial stability. If the supplier's engagement is terminated due to its own default, the supplier will be liable to pay to the Council the remainder of the total savings guarantee (during the payback period) less the total of any actual savings which the Council has received and less the amount of all costs which the Council would have had to incur in order to receive the benefit of the total savings guarantee had the supplier not committed a breach of the agreement.
- 12.4. Underperforming installations: If at any time any of the energy efficiency measures achieve less than 90% of their stated savings, the Council shall provide a "Warning Notice" to the supplier. If any energy efficiency measures achieve 80% of its stated savings, the Council may instruct the supplier to replace the asset with an equivalent asset which has a utilities consumption in line with the Investment Grade Proposals at the cost of the supplier.
- 12.5. Savings Guarantee: The supplier shall guarantee the anticipated savings as set out in the payback calculation provided that the Council follows the maintenance regime outlined by the contractor in the operation and maintenance manuals.
- 12.7 Implications verified/completed by: Dr. Vassia Paloumbi
Carbon Reduction Manager TTS - Building and Property Management
020 8753 3912

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 13.1. The Council's Carbon Reduction Manager is working with the Corporate Procurement team in relating to this project.
- 13.2. The proposal is to use a framework agreement that has been let by the Mayor of London on behalf of all the London boroughs. There will be a "mini-competition" arising out of this framework and this is being led by the LB Hounslow.

- 13.3. The WLA is proposing to working in partnership across seven boroughs in phase 1 (eight in subsequent phases) in order to drive down prices and obtain better rates from the Energy Service Companies who express an interest in this work.
- 13.4. Implications verified/completed by: Alan Parry, Procurement Consultant (TTS) telephone 020 8753 2581

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

Appendix 1: Signed Memorandum of Understanding