

Committee/Meeting: Cabinet	Date: 31st July 2013	Classification: Unrestricted	Report No: CAB 011/134
Report of: Corporate Director: Aman Dalvi Originating officer(s): Jackie Odunoye Service Head: Housing, Regeneration & Sustainability Authors: John Kiwanuka – Housing Partnerships Manager (LBTH) Sarah K Pace – Head Business Development & Investment Planning (Tower Hamlets Homes)		Title: Adoption of Capital Estimates for Fuel Poverty and Insulation Works on HRA Properties Wards Affected: WEAVERS BETHNAL GREEN SOUTH	

Lead Member	Lead Member for Housing: Cllr Rabina Khan
Community Plan Theme	Great Place to Live
Strategic Priority	Ensuring value for money across the Council

1. **SUMMARY**

- 1.1 Fuel poverty and insulation works on HRA properties on Avebury and Bancroft Estates are designed to improve energy saving and performance of 637 homes. The scheme primarily comprises of External Wall Insulation (EWI) commonly referred to as Cladding, amongst other measures. The total scheme cost is estimated to be £6.7m, funded through Council resources, ECO funding and the Department for Energy & Climate Change (DECC) grant contribution. On the Council resources provision of £809,000 has already been set aside to contribute towards CESP/ECO works. Cabinet approved a capital estimate of £409,000 within the Non-Decent Homes element of the Housing Capital Programme that was approved on 8 February 2011, and £400,000 has been earmarked within the repairs and maintenance budget. There is also £1 million of New Homes Bonus approved by Council in March 2012.
- 1.2 This report seeks Cabinet approval for the adoption of capital estimates. The programme will not impose any costs on to leaseholders as it will be all in the main funded via national grants.

2. **DECISIONS REQUIRED**

The Mayor in Cabinet is recommended to:-

- 2.1 Adopt a capital estimate of £4.063 million for fuel efficiency works on HRA properties to supersede the existing approvals of £1.809 million that are already incorporated into the approved budget, noting that the increase of £2.254 million is the Department of Climate Change grant funded element of the scheme.

- 2.2 Agree the proposed Fuel Poverty and Insulation Works on HRA Properties.
- 2.3 Agree the procurement of the contract, for insulation works on HRA assets, funded by DECC, the Council and ECO, through the RENEW Framework following a competitive tendering process.
- 2.4 Authorise the Corporate Director D/R in consultation with ACE Legal to award the contract to the successful contractor following completion of the competitive tendering process.
- 2.5 Authorise the Assistant Chief Executive (Legal Services) enter into all necessary documents to implement the decisions made in respect of this report.

3. REASONS FOR THE DECISIONS

- 3.1 The Council acquired from Carillion Energy Services (CES) Intellectual Property Rights (IPR) consisting of designs, plans, planning permissions etc. that the company has prepared or obtained in relation to the estates. The cost of the IPR valued at up to £750,000 (depending on when the contract is entered into, as provided it is completed by 1st October 2013 there is a £50,000 discount available) is significant, however, these IPRs are of limited value to the Council unless the energy efficiency scheme subsequently proceeds for the specific sites and DECC grant and ECO funding is secured. If the scheme does not progress the Council will have acquired an asset of limited use and value.
- 3.2 It is imperative that the Council meet the spending agreement with DECC in which it was agreed that the delivery of the insulation works will commence in August 2013 and the whole scheme delivered six months later. The RENEW Framework presents a delivery avenue that is not only readily available but also appropriately procured. This framework was preferred because it specialises in energy efficiency improvements and has a major ECO obligated supplier on the framework..
- 3.3 The proposed energy savings programmes fall within the Great Place to Live strand of the Community Plan and in particular objective 2 - Improving and maintaining the quality of housing, including by maximizing energy efficiency.

4. ALTERNATIVE OPTIONS

- 4.1 Soft market testing indicates there is current interest in the council's proposed procurement; however a further lengthy delay may result in the potential partner energy companies discharging their interest in other schemes, which – at the moment – is mitigated by adopting the RENEW Framework.

5. BACKGROUND

- 5.1 As part of the Housing Revenue Account Business Plan, the Authority is proposing to spend approximately £30 million on insulation and energy efficiency works as part of the capital programme over the next thirty years. This is made up of the following elements:-

	£ million
Central Heating (includes radiators, boilers & communal heating)	13.90
Double Glazed Windows	13.10
Front entrance doors and/or rear/balcony doors (double glazed)	3.10

- 5.2 These measures will help improve the energy efficiency of homes and in consequence help reduce residents' fuel bills.
- 5.3 Last year, Tower Hamlets Homes, working with Carillion Energy Services and in consultation with residents and the Council, sought to supplement resources available to improve the energy performance by accessing funding through the Community Energy Saving Programme (CESP).
- 5.4 CESP is funded by an obligation on energy companies and was designed to provide up to 100% of funding support in the most deprived neighbourhoods containing homes with poor energy ratings, e.g. poorly insulated blocks.
- 5.5 However, in the course of developing the fuel poverty and insulation works scheme it became apparent that some financial contribution would be required from the Council. In part this was driven by the design standard required by the borough. CESP ended in March 2013 and was replaced by a new funding stream titled Energy Company Obligation (ECO).

6. BODY OF REPORT

- 6.1 In November 2012 DECC announced a Fuel Poverty Fund to which Councils could apply for grant to support initiatives aimed at helping low income and vulnerable people keep warm this winter.
- 6.2 Consequently, the Council submitted a bid to DECC and secured £2.254m to support the delivery of energy saving measures to increase energy performance of 637 homes to Avebury and Bancroft Estates. The selection of these estates is dictated by the constraints of the CESP programme. The impact will be to increase the SAP rating for these properties by plus 10-15.
- 6.3 The proposed fuel poverty and insulation works on HRA properties focuses on cladding because earlier investments had addressed inefficient gas boilers. The scheme primarily comprises of External Wall Insulation (EWI) commonly referred to as Cladding, amongst other measures. The programme will involve 599 homes benefitting from wall insulation, 108 homes loft insulations, 24 homes cavity walls insulations, and the installation of higher rated boilers where needed. Benefits of the programme include:
- § Saving residents on average of £150 - £175 per year, based on a two bedroom flat, and will significantly alleviating fuel poverty.
 - § Making a demonstrable visible improvement to the external appearance of estates.
 - § Significantly reducing condensation in these properties.
- 6.4 Soft market testing with energy providers is on-going to secure the maximum level of ECO funding possible. There is positive indication that funding can be secured to enable work to be carried out to improve energy efficiency to benefit 637 homes in Avebury and Bancroft neighbourhoods as originally planned.
- 6.5 The £6.7m scheme will be funded by £1.809million for the Council, £2.254million from DECC and the difference will be bridged by the supplier who need to secure Energy Company Obligation (ECO) subsidies. This means that estimated

£4.81million worth of work for the Council's direct contribution of up to £1.809m. The council envisage to procure this contract through the RENEW framework in order to meet the DECC timescales, and it is intended that the council go live with this procurement at the end of July 2013.

- 6.6 The procurement approach requires THH to purchase the design, design specification and planning approval from Carillion Energy Services (CES) to form the basis for a mini-competition and award of a call-off contract to deliver the works. A call-off from a framework was proposed as an alternative to a full OJEU compliant tender due to the delivery constraint of spending £2.254m DECC grant funding before the end of May 2013. DECC have subsequently extended the period by which the grant funding is to be spent until October 2013. The RENEW framework was preferred as it is OJEU compliant, energy efficiency improvement specific and has both BG and CES as suppliers.
- 6.7 The project cannot be achieved within THH's current capacity due to the pressures of Decent Homes delivery. The successful suppliers will project manage the delivery of the scheme and provide a CDM coordinator, and Resident Liaison officers. Contract Administration and quality assurance functions will be resourced by the Decent Homes consultants for the respective Lot and THH will monitor performance and ensure that the project is appropriately governed.

6.8 Proposed programme delivery:

Activity	Milestone	Complete
Competition Planning Forum	25/06/2013	Yes
Competition Board	08/07/2013	Yes
Mayoral approval for CES IPS purchase	30/06/2013	Yes
Cabinet approval	31/07/2013	
Issue of Invitation to Tender (ITT)	09/07/2013	
Tender submission Deadline	06/08/2013	
Tender evaluation	By 20/08/2013	
Let Call – Off contract	27/08/2013	
On site commencement	31/08/2013	
Contract end	15/02/2013	

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1 This report seeks approval for the procurement of a scheme to undertake insulation works to 599 properties on the Avebury and Bancroft Estates, with the adoption of corresponding capital estimates. The report also seeks approval to procure the contract through the RENEW Framework following a competitive tendering exercise.
- 7.2 As laid out in the report, the Council previously tried to attract funding from the Community Energy Saving Programme (CESP) to develop an external wall insulation scheme in partnership with an external organisation – Carillion Energy Services. However due to various cost increases and the reluctance of energy companies to commit to the scheme, the Council and its partner were unable to proceed with the programme. The CESP initiative ended on 31 March 2013 and has now been superseded by the Energy Company Obligation (ECO).

- 7.3 To support the initial CESP bid, £1,809,000 of resources that had previously been set aside by the Council in relation to energy efficiency works were earmarked as a contribution to towards the scheme. This was made up of £409,000 approved as part of the 2012-13 Housing Revenue Account capital programme and carried forward into 2013-14; £400,000 allocated within the HRA revenue Repairs and Maintenance budget(now to be treated as a Revenue Contribution to Capital); and £1 million of New Homes Bonus funding that was approved by Council in March 2012.
- 7.4 The Council has secured new grant funding of £2.254 million from the Department of Climate Change Local Authority Fund (Fuel Poverty), which with the resources already earmarked, means that a total contribution of £4.063 million is available towards the financing of an energy efficiency scheme.
- 7.5 As laid out in the report the Council now wishes to enter into a new procurement process to seek a partner energy company to deliver the energy efficiency scheme. The energy company will contribute significant funding under its 'Energy Company Obligation' (ECO) requirement. This contribution is estimated at £2,637,000 but will be subject to procurement through the RENEW framework.
- 7.6 The Council has purchased the Intellectual Property Rights (IPR) i.e. the designs, plans, planning permissions etc. that had been prepared or obtained in relation to the estates concerned by its initial partner, Carillion, which will no longer be involved in the project. These can cost up to £750,000, (depending on when the contract is completed) but the acquisition of these rights will enable a new scheme to the value of £6.7 million (including the costs of the IPR) to be developed. The proposed funding for the scheme will therefore be as follows:

	£
ECO Funding - via Energy Partner	2,637,000 *
DECC Grant	2,254,000
New Homes Bonus	1,000,000
Housing Revenue Account Contribution	400,000
Housing Capital Programme	409,000
	<u><u>6,700,000</u></u>

* Estimated Contribution

- 7.7 As outlined in paragraph 6.3, total investment of this level should enable a scheme to be undertaken to install energy efficiency measures to the 599 properties listed in Appendix A. The works will be scheduled in line with the Decent Homes works being undertaken on these estates in order that benefits can be obtained from economies of scale arising from the coordination of works e.g. reductions in scaffolding costs.
- 7.8 The insulation measures will lead to a reduction in residents' energy costs estimated at between £150 and £175 per property per year. They will also help to alleviate the condensation problems suffered by occupants of the blocks and in addition to the health and social benefits arising, should lead to maintenance savings within the Housing Revenue Account although these are not quantifiable at this stage. The cladding works should also generate savings within the HRA capital programme by reducing the need for future major planned external works to the blocks.
- 7.9 As funding of £1.809 million has already been approved for energy efficiency works, in order that the full scheme can be adopted, a total capital estimate for £4,063,000 needs to be adopted by Cabinet to enable the DECC grant funding to be

incorporated into the scheme. The Council's contribution will be capped at this level and it must be ensured that any funding risks caused by financial overspend lie with the partner energy supplier as part of any contractual arrangements entered into.

7.10 The capital estimate of £4,063,000 will therefore be financed as follows:

	£
DECC Grant	2,254,000
New Homes Bonus	1,000,000
Housing Revenue Account Contribution (RCCO)	400,000
Housing Capital Programme	409,000
	<u>4,063,000</u>

The majority of the expenditure will be incurred during the 2013-14 financial year, and it is essential that the DECC Grant element in particular is fully utilised by 31 March 2014 in accordance with the grant conditions.

8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 8.1 The Council has a legal duty to obtain best value in respect of all its purchases of goods works and services.
- 8.2 The Council is also under a legal duty to tender this opportunity in Europe where the value of the contract is in excess of the European set threshold (currently £4.1m for works).
- 8.3 The amount that the Council is spending inclusive of the received grant is slightly below this threshold. However, this contract as a whole is described under the Public Contracts Regulations as a "works concession contract" which is a particular type of works contract.
- 8.4 Essentially the winning bidder will also make use of funds from a third party funder (who is a power company) and this is "ECO Funding".
- 8.5 Every year OFGEN require all power companies to channel profit back into energy saving measures and the winning bidder will be able to make profit from this. The Council is therefore offering an opportunity of a contract that will be worth more than the value it is spending which takes the overall contract value (as the calculation is set under the regulations) above the relevant European Threshold.
- 8.6 It is the intention that the Council will use the centrally procured RENEW Framework in order to tender this opportunity and this will satisfy the Council's obligations under the prevailing EU Law.
- 8.7 It is noted that the members on the framework are large companies who are not local to Tower Hamlets. However, the tender documentation is to include the local benefits factors detailed under the Procurement Policy and the winning bidder will be subcontracting into the local supply chain as is now common with the Council's major works contracts. This will provide for sustainable work for local firms and potentially apprenticeships and other local benefits. The local benefits element of the tender will

represent 5% of the overall evaluation score relating to quality in line with Counsel's advice. The final documents detailing the local benefits also form part of the contract obligating the winning bidder to deliver on these measures

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The completion of work will help alleviate fuel poverty for 637 households living in greatest need on the Avebury and Bancroft estates.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 10.1 This report proposes that funding is allocated towards energy efficiency measures. This will reduce energy consumption and therefore will reduce carbon emissions from council properties.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 With the introduction of Self-Financing from April 2012, Tower Hamlets is responsible for running its HRA as a viable business, using HRA income in order to fund all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, and the Decent Homes programme.
- 11.2 It is essential that the HRA medium-term financial strategy be kept under review, and is updated to reflect changes all decisions in relation to funding proposals, as well as in economic conditions and policy changes.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 12.1 There are no significant implications arising from these specific recommendations.

13. EFFICIENCY STATEMENT

- 13.1 The allocation of resources towards energy efficiency measures that are proposed in this report should reduce energy consumption within dwellings managed by the Council. Further projects will be undertaken in partnership with Tower Hamlets Homes to identify further on-going efficiency savings to ensure that the HRA remains sustainable in the longer term.

14. APPENDICES

Appendix 1 Project Scope Summary

Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012

Brief description of "background papers" Name and telephone number of holder and address where open to inspection.

None

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