

Report of: Corporate Director Environment

Date: 24 November 2022

Ward(s): Bunhill and St Peters & Canalside

Appendix A to this report is exempt and not for publication

Procurement Strategy – Bunhill Heat Network Extension

1 Synopsis

- 1.1 This report seeks pre-tender approval for the procurement strategy for a contractor to design and install the connections to extend the Bunhill Heat Network to two new sites, Telfer House and City Forum. This is being done in accordance with Rule 2.8 of the Council's Procurement Rules.
- 1.2 The Council's Energy Services team has secured funding from the Heat Network Investment Project (HNIP) to carry out an extension of the network to Telfer House and City Forum.

2 Recommendations

- 2.1 To approve the procurement strategy for the construction of the HNIP funded Bunhill heat network extension to two new developments as outlined in this report (total estimated value: £1,227,901).
- 2.2 It is recommended to use the Fusion 21 Decarbonisation framework agreement (see section 4) agreement through a mini competition as a quick and efficient route to market, which has been designed and used effectively for specialist decarbonisation projects.

3 Date the decision is to be taken

- 3.1 23 December 2022

4 Background

4.1 Nature of the service

- 4.1.1 The London Borough of Islington currently owns and operates an award-winning modern district heating system in the Bunhill Ward of the borough. The system provides a low-cost source of heat to residents and facilities connected to the pipework network installed in the public realm. It has two Energy Centres and provides heat to over 1200 homes, two local leisure centres and a primary school.
- 4.1.2 The council's Vision 2030: Building a Net Zero Carbon Islington by 2030 strategy includes a commitment to look at opportunities to add new connections to the Bunhill Heat Network. Islington's main driver for this phase and future phases is the reduction of fuel poverty through the provision of locally generated heat and power to residents, alongside the obvious carbon reduction benefits.
- 4.1.3 The aim of this project is to connect two more buildings onto the network. The two buildings are Telfer House and City Forum. City Forum is a private development by BH (City Forum) Limited with mixed usage (housing, retail and commercial) with around 1,000 dwellings. Telfer House is a council owned housing new build development that consists of 38 new homes.
- 4.1.4 At the heating sub-station for Telfer House and City Forum, the primary side of the heat exchanger plate will be maintained by the current Bunhill Heat Network Operation & Maintenance (O&M) contractor, while the secondary side of the heat exchanger plate will be maintained by the building management's O&M team.
- 4.1.5 This project generates revenue through the heat sales and standing charge as the new connections will be supplying heat to City Forum. This will help improve the financial performance of the Bunhill Heat Network as the heat sales would increase, significantly improving revenue for the network.
- 4.1.6 As a council housing block, Telfer House will be charged in the same way that existing council housing connections are.
- 4.1.7 The extension to both the sites will be done by a single contractor to reduce the overall cost of the project by only having one mobilisation.
- 4.1.8 The procurement of this work is necessary as the council does not have the resources to effectively deliver the project. Thus, a contractor with previous experience in heat networks is needed to ensure project completion within the timeframe.
- 4.1.9 It is proposed to use the Fusion 21 Decarbonisation framework agreement to procure a single contractor for works on both sites. This will be done through a mini competition via this framework agreement.

4.1.10 This contract will be managed by the Energy Services team. The Energy Services team will oversee the progress of the project and liaise with Triple Point (the body administering the HNIP grant) to ensure the project progresses in line with the grant conditions.

4.2 Estimated value

4.2.1 The total value of this procurement is (£1,227,901) which covers the overall construction works.

4.2.2 The construction costs are funded by a mixture of HNIP grant funding, City Forum connection fees (funding to be finalised), Telfer House Connection Fees, and Housing Revenue Account (HRA)/ council capital funding as per Table 1 appended in Appendix A. This information is exempt as it is regarded as commercially sensitive.

4.2.3 The costs estimated for this project have been finalised using the help of an external consultant in August 2022, which will be tested by a mini competition using the Fusion 21 framework agreement.

4.3 Timetable

4.3.1 Since the project is complex, a consultant will need to be engaged to issue the technical specification and pre-construction information before the tendering process. The appointment for the consultant for this purpose is separate to the procurement of the main contractor and is currently running in parallel with this procurement strategy report.

4.3.2 Provided that this strategy is approved, we aim to begin the procurement process after the technical specification and pre-construction information are completed by the consultant and ready for the tendering process. There is no current contract for these works.

4.3.3 Discussions have been held with both Telfer House and City Forum project managers to devise an elaborate plan on when the two sites will get connected to the Bunhill heat network, mainly overseeing the timeline of project.

4.3.4 A heat supply agreement will also need to be signed between the council and BH (City Forum) Limited before starting the construction works. The dispensation process which involves the engagement and consultation with City Forum residents regarding this project is currently taking place and will take between three to six months.

4.3.5 As the works for the connection of the heat network to Telfer House is fully covered by the Council, no leaseholder charges apply. Hence, the Section 20 consultation process with the council leaseholders is not required.

4.3.6 The details of this project have been discussed with the Council's Finance team, Council's Legal team, and Planning team.

4.3.7 Please see Table 2 below the estimated timeline of this project:

Table 2: Project Timeline

Procurement Strategy approved	Dec-22
Tender Documentation Issued	Mar-23
Tender return deadline	Apr-23
Evaluation of Tenders	May-23
Award of Contract	June-23
Mobilisation Period	June-23
Contract Start	July-23
Project Completion	Jan-24

4.3.8 The HNIP grant for construction works is required to be drawn by 31 March 2023. To do this, precedent conditions outlined by the grant provider must be met. However, this does not include the appointment of the contractor, or the start of any construction works.

4.3.9 A swift procurement process is required to avoid any delay in the construction works, to ensure that heat is supplied through the Bunhill Heat Network connections to Telfer House and City Forum as a part of their development plans.

4.3.10 A swift procurement process is also required to avoid any delay in the construction works, which may cause an increase in overall costs due to further inflation in the future.

4.4 Options appraisal

Options appraisal – Option 1: Doing the works in-house

4.4.1 There needs to be specialist services (construction works, technical designs adhering to current below ground network of telephone lines etc., installation of heat pumps).

4.4.2 The council does not have the ability or capacity to carry out these works itself. Therefore, this is not our recommended option.

Options appraisal – Option 2: Conducting a competitive tender process

4.4.3 The advantages of conducting a competitive tender process for this procurement include:

- Specification and scoring can be tailored ensuring acceptable timeframes for delivery, quality of works and experience of working with vulnerable households.
- Demonstrates value for money.

4.4.4 Nevertheless, the competitive tender process is a longer process and requires greater staff resources in comparison to Option 3. Due to this, this option is not considered for the procurement of the contractor.

Options appraisal – Option 3: Using the Fusion 21 Decarbonisation framework agreement

4.4.5 The benefit of using a framework agreement includes:

- Specification and scoring can be tailored ensuring acceptable timeframes for delivery, quality of works and experience of working with vulnerable households.
- Demonstrates value for money and quality of contractors.

4.4.6 While both option 2 and option 3 demonstrate value for money, the main advantage of using a framework agreement is the reduced time required to complete the procurement process. To ensure that the project follows the timeline as per outlined in Paragraph 4.3, it has been decided to use a framework agreement.

4.4.7 Several framework agreements were considered. The Fusion 21 Decarbonisation framework agreement is designed to provide public sector organisations with a simplified means of sourcing decarbonisation projects and related improvement works across the built environment.

4.4.8 The reason to choose Fusion 21 Decarbonisation framework agreement for this procurement are for the following reasons:

- This framework agreement has been identified as a quick and efficient route to market, which has been designed and used effectively for specialist decarbonisation projects.
- Fusion 21 has a Decarbonisation framework agreement specifically designed to meet the needs of public sector organisations. Lot 4 of the framework is the “Heating and Renewables” framework agreement which focuses on suppliers who have the capability to extend the Bunhill Heat Network for the purpose of this commercial installation project.

4.5 Key Considerations

4.5.1 Social value of bids will be assessed specifically during the tender exercise.

4.5.2 Islington Council is committed to shaping and promoting a local economy that is underpinned by the principles of equality and fairness, economic, environmental, and social justice. This builds on work undertaken in response to the Islington Fairness Commission and is part of Islington Council’s overarching vision of working towards a fairer Islington.

4.5.3 Fusion 21 Decarbonisation framework agreement allows social value to be credited and accounted towards the selection procedure. From the social value credits provided

by the framework (see full list in Appendix B), we will request the contractor to provide at least the following measures:

- a. Career advice / presentation / workshop
- b. Work experience – one person
- c. Job created – two x part-time jobs are preferred
- d. Apprenticeship created - two people
- e. Three x Accredited training
- f. One x Non-accredited training
- g. Wider social value support to local community – Donation £5,000
- h. Wider social value support to local community – Donation of time - three days

This request for the minimum social value requirements will be included in the specification and tendering documents. The contractor will be evaluated during the selection procedure based on the method they plan to satisfy these social value requirements.

The Council is committed to delivering positive social value benefits for Islington residents, working closely with schools and through the World of Work Programme <https://www.islingtoncs.org/wow> to offer exposure to wide range of jobs and skills within the remit of environmental works. We expect the contractor to make an active contribution to this programme.

The council is committed to supporting young people through providing apprenticeship opportunities. We are keen to see this also reflected through our contractors.

The council is also keen to provide opportunities for long-term unemployed individuals who are not in education, employment, or training (NEET). This includes ex-offenders to give them a second chance in life so they can better themselves, have a long-term future and continue with the growth of their local community. A requirement of this contract is that all entry-level posts must be recruited through council's iWork service, where around 400 skilled local job seekers are registered and ready to start work.

In addition to employment for local people, we would like to see practical steps taken to reach out to and employ people from disadvantaged backgrounds, such as young people, particularly those with low or no qualifications, who face significant barriers to a very challenging labour market and Black, Asian, and Minority Ethnic populations who research shows have been disproportionately impacted by the COVID-19 pandemic.

We expect the contractor to engage local community through donations of money and time to regenerate the community to ensure a greener and fairer Islington.

The chosen supplier will be required to report on the amount of social value delivered through the contract. The project manager will be responsible in monitoring for the contractor's performance data in social value achievements.

- 4.5.4 Payment of London Living Wage for all staff and operatives working on the project will be a requirement of the contract.
- 4.5.5 The project will have a positive sustainability benefit by reducing carbon emissions from the site by reducing the use of gas boilers and an economic benefit to the Council by reducing energy consumption at a time of rapidly increasing energy costs. There are no other environmental benefits.
- 4.5.6 This project will also ensure that the Bunhill Energy centres are running at full capacity as this would help improving the revenue from the heat network as outlined in Paragraph 4.1.5.
- 4.5.7 This will be a “Managed Procurement” which allows Fusion 21 to draft the documentation and facilitate the process, further streamlining the overall timeline and reducing project scope creep. Note that the consultant will produce the technical specifications in the scope of works, which will be a part of the Invitation to Tender (ITT) documents.

4.6 Evaluation

- 4.6.1 The tender will be conducted through a mini competition under which all suppliers from the Fusion 21 Decarbonisation Framework (Lot 4: Heat & Renewables) will be invited to bid.
- 4.6.2 Tenders will be evaluated based on the tenderer’s price and ability to deliver the contract works as set out in the award criteria in order to determine the best value for money for the council, as well as ability to deliver the works within the timeframe set out by the HNIP grant.
- 4.6.3 See below the proposed cost / quality award criteria:

Table 1: Cost / Quality award criteria

Type of criteria	Description	Weight [%]
Cost	-	25%
Quality	Overall	75%
Quality	Proposed methodology for delivery of works (including a programme of works in the form of a Gantt chart, with contingency)	30%
Quality	Proposed approach to Health & Safety	5%
Quality	Proposed approach to provision and management of a secure supply chain	10%
Quality	Proposed approach to quality (including environmental sustainability) and contract management	10%
Quality	Proposed approach to social value	20%

4.7 Business risks

- 4.7.1 The main business risk regarding this project is the heat supply agreement with BH (City Forum) Limited. While agreement has nearly been reached on the contract between the council and BH (City Forum) Limited, it will need to go through a dispensation process with City Forum residents, which could take three-six months. While BH (City Forum) Limited have advised that the risk of rejection is low, we cannot start the construction phase of the project until the dispensation process is complete, and the heat supply contract signed. In the case that the agreement is not signed by BH (City Forum) Limited, the project will not progress to the design and build phase.
- 4.7.2 There are no business risks in relation to Telfer House as it is council owned housing development.
- 4.7.3 Starting on the procurement process early, writing specifications and other procurements documents will be important in mitigating the risk in relation to the timeframe outlined in Paragraph 4.3.7 and 4.3.8. The use of the Fusion 21 Decarbonisation framework agreement will also allow a contractor to be engaged more quickly. Careful management of the contractor will then be required. The requirement to meet this timeline will also be written into the contract.
- 4.7.4 There is a risk that no supplier on the Fusion 21 Decarbonisation framework agreement chooses to bid for this contract. Should this happen, this would have serious consequences for the delivery of the project and risks withdrawal of the external funding. Mitigation has been made using an early expression of interest process to gauge interest from the suppliers on the framework agreement in advance of the tendering exercise. Should no suppliers express an interest urgent consideration of alternative procurement framework agreements will be considered.
- 4.7.5 There is a risk that a supplier chosen through the procurement exercise could pull out prior to the signing of the contract. Should this occur alternative suitable suppliers will be sought from the framework agreement. The chosen supplier could attempt to pull out of the contract after this has been signed. Should this situation occur, the council's legal department will consider contractual options. An alternative supplier would be sought to deliver the project is possible.
- 4.7.6 There is a risk that the chosen contractor requests a longer mobilisation period to start the works on site or does not perform the works to the required standard. Robust contract management measures have been planned by the Energy Services team overseeing the project and will be implemented to reduce the risk of

delay to the project. Quality assurance processes have been planned by the Energy Services team to ensure the work of the contractor is regularly checked and any concerns will be raised promptly with the contractor.

4.7.7 There is a risk that the new connections will require trenching in roads. The amount of sub-surface services (telephone lines, gas and water pipes, and electrical lines) may affect the construction period of the project. This will be the responsibility of the contractor to negotiate with the utilities supplier to provide permissions promptly.

4.7.8 The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale, or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26 March 2013, all tenderers will be required to complete an anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The Council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.

4.7.9 The following relevant information is required to be specifically approved by the Executive in accordance with rule 2.8 of the Procurement Rules:

Relevant information	Information/section in report
1. Nature of the service	See paragraphs 4.1
2. Estimated values	See paragraphs 4.2
3. Timetable	See paragraphs 4.3
4. Options appraisal for tender procedure including consideration of collaboration opportunities	See paragraphs 4.4
5. Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions, and other staffing implications	See paragraphs 4.5
6. Award criteria	See paragraphs 4.6
7. Any business risks associated with entering the contract	See paragraphs 4.7
8. Any other relevant financial, legal, or other considerations.	See paragraph 5 and onwards

5 Implications

5.1 Financial Implications

5.1.1 The estimated construction cost of £1.228m will be funded from a combination of HNIP grant funding, connection fees from the private development (City Forum),

Telfer House budget and council/HRA funding. Additional detail on funding sources can be found in the exempt appendix of this report.

- 5.1.2 However, the connection fee from BH (City Forum) Limited is contingent until such time a new heat supply agreement has been signed (see 4.2.2 and 4.7.1 of the report).

5.2 Legal Implications

- 5.2.1 The council has power to procure and enter into the proposed contract under section 1 of the Local Government (Contracts) Act 1997 and section 1 of the Localism Act 2011.
- 5.2.2 It is proposed to use the Fusion 21 Decarbonisation framework agreement to procure a single contractor. This will be done through a mini-competition via this framework agreement. (Framework start date: 31/01/2022 - Framework end date: 30/01/2026.)
- 5.2.3 The proposed mini-competition is a legally compliant route to market - the total contract value of £1.228m is below the current Public Contracts Regulations threshold for Works.
- 5.2.4 The proposed procurement route is also compliant with the council's Procurement Rules.
- 5.2.5 The total contract value is within the £2m delegated power threshold of the Corporate Director for capital projects. The Corporate Director has power to sign the necessary Contract Award Report to the winning bidder in due course, subject to being satisfied that the contract represents value for money for the council.

5.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

- 5.3.1 The delivery of the measures will have some environmental impacts during their implementation. These include material and energy use and the generation of construction waste (including the requirement to remove and dispose of earth soil extracted to put in pipework). There is also potential for some nuisance issues such as noise to neighbouring properties during construction. There will also be some travel-related impacts by the contractors. Mitigation actions will be in place where possible to reduce these impacts. There are no other implications to the environment as wildlife will not be affected by the works.
- 5.3.2 The main environmental implication will be the reduction in use of gas boilers in both the large residential developments through connection to the Bunhill heat network, which provides low carbon heat from CHP engines and a large heat pump. This will reduce carbon emissions and local air pollution. Connecting more sites to the Bunhill Heat Network is also an objective in the council's Vision 2030 Net Zero Strategy.

5.4 Equalities Impact Assessment

5.4.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

5.4.2 An Equalities Impact Assessment was completed on 20 October 2022. The main findings are:

- Main beneficiaries are the Telfer House and City Forum residents, in which they benefit from the economical and low carbon heating from the heat network extension in the long run.
- The short-term adverse impacts on residents, service users, local communities and visitors of surrounding area include temporary road closure/traffic diversion and noise disruption.
- Residents of the blocks will not experience any disruption to their heating system as all work will be in the communal boiler room.
- Mitigation actions as per detailed in the Equalities Impact Assessment will be in place to ensure old people, young people and disabled people will not be affected by the construction works.
- The construction period is reduced to about six months by appointing a single contractor, minimising the disruption to residents and local businesses.
- The temporary adverse impacts are far outweighed by the long-lasting positive impacts on the well-being of the residents.

5.4.3 The full Equalities Impact Assessment is appended in Appendix C.

5.4.4 Discussions have been held with both Telfer House and City Forum project managers to devise an elaborate plan on when the two sites will get connected to the Bunhill heat network, mainly overseeing the timeline of project.

6 Conclusion and reasons for the choice

6.1 It is recommended that the Fusion 21 Decarbonisation framework agreement is used to procure a contractor to deliver the construction works for the Bunhill heat network extension to the City Forum and Telfer House developments.

- 6.2 This is a fast and efficient method to engage a contractor with the relevant skills and expertise required for decarbonisation projects such as the extension of the Bunhill Heat Network.

7 Record of the decision

- 7.1 I have today decided to take the decision set out in section 2 of this report for the reasons set out above.

Signed by:



Corporate Director of Environment

Date 23.12.22

Appendices (exempt):

- Appendix A: Value of each funding sources for construction works of Bunhill extension project to Telfer House and City Forum

Appendices:

- Appendix B: Fusion 21 Decarbonisation Framework Social Value Credits Used For Assessing Bidders
- Appendix C: Equalities Impact Assessment

Background papers:

- N/a

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