

# REPORT FOR: **CABINET**

---

<b>Date of Meeting:</b>	9 February 2012
<b>Subject:</b>	Carbon Reduction - RE:FIT Tender returns
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Brendon Hills, Corporate Director Community and Environment
<b>Portfolio Holder:</b>	Councillor Thaya Idaikkadar, Portfolio Holder for Property and Major Contracts
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Enclosures:</b>	Appendix A - Anticipated Funding for project

## Section 1 – Summary and Recommendations

This report sets out the proposed future arrangements for purchasing energy across the council estate – including schools.

### Recommendations:

Cabinet is requested to:

1. Agree the appointment of MITIE as the Preferred Supplier
2. Agree to seek Investment Grade Proposals from the Preferred Supplier
3. Delegate authority to the Corporate Director, Community and Environment, in consultation with the Portfolio Holder to enter into a contract subject to the Investment Grade Proposals meeting the business case requirements set out in the report
4. Note the financial arrangements and potential use of LEEF (London Energy Efficiency Fund) for funding – subject to agreement from energy budget holders to meet the repayments

### Reason: (For recommendation)

Reducing the council's energy use is consistent with the council's climate change strategy. This proposal will reduce expenditure on utility bills and reduce the cost of complying with the Carbon Reduction Commitment scheme.

## Section 2 – Report

### 2.1 Introduction

Cabinet has received previous reports setting out the rationale for using the RE:FIT Framework to procure this work. This is a Framework Agreement by which public bodies within the London area can access expertise in energy reduction technologies to reduce their carbon footprint, with the investment being repaid from the resultant savings in energy costs. As part of the Framework the companies provide guaranteed carbon savings.

### 2.2 Options Considered - Purchasing Strategy

Invitations to Tender, using a mini competition process, were sent out to the 12 companies in the Framework on 2<sup>nd</sup> November. Tenders were returned on 19 Dec and comprised of Desk Top Audits (DTAs). Three companies submitted bids – EdF, Johnson Controls and MITIE. Submissions were evaluated and all three companies were invited to Supplier Interviews on 4/5 January 2012.

The ITT documents set out the following business case strategy for Tenderers.

- A guaranteed minimum energy saving of 1,400,000 kWh and 20% per annum showing the kWh and CO<sub>2</sub> split between each energy source for each building and the portfolio of buildings
- The maximum payback for the Phase 1 project should not exceed Ten years.
- A Desktop Assessment (DTA) for all 9 building(s) on behalf of the London Borough of Harrow to achieve this saving;
- Fixed project capital costs (on a Not to Exceed basis)
- Suppliers should include a clear financial model with all relevant costs (including fee rates and mark ups
- Suppliers should provide this information for each ECM and each building within the selected building portfolio basis. Suppliers will also need to include a detailed description and methodology for the Measurement and Verification (M&V) Plan and the associated project costs for this work.

The three submissions showed a significant variation in emphasis on the types of energy saving measures that were proposed. However all bids proposed the provision of replacement lighting and improved control of boilers and the use of radiator thermostats. In summary the submissions show the following: -

	<b>Total cost</b> <b>£000s</b>	<b>Carbon saving</b> <b>T</b>	<b>Ave Payback</b> <b>Years</b>	<b>Ave cost/tonne</b> <b>£/tonne</b>
EdF	842	542	8.8	1554
Johnson Controls 1	798	470	10.7	1698
Johnson Controls 2	1074	519	13.1	2069
MITIE	1018	685	9.5	1486

The Supplier Interviews explored the bids in detail: sought reassurance that the savings were achievable and deliverable; and assessed the quality and technical competence of the Tenderers. As a result of the evaluation process it is recommended that MITIE be appointed as

the Preferred Supplier (as they scored significantly better in the evaluation and offer the lowest cost/tonne of carbon saved and the largest carbon savings).

The next phase of this scheme is to request Investment Grade Proposals (IGPs) from the Preferred Supplier. By moving to IGPs (Investment Grade Proposals) the council is making a commitment to meet abortive costs if it were to subsequently decide not to proceed with the project. All the building managers have been informed of this commitment. Buildings will not proceed to IGP until they are able to confirm that they can meet this commitment to meet potential abortive costs,

MITIE have provided the following details of the IGP costs.

<b>Building</b>	<b>Cost of IGP (£)</b>
	<b>MITIE</b>
Bedford House	652
Bentley NRC	887
Belmont F&M school	887
Cannon Lane F&M school	2,502
Norbury F&M school	3,130
Stanburn F&M school	2,882
Vaughan F&M school	2,988
Weald F&M school	4,095
Whitefriars F&M school	858
The Teachers Centre	2,239
<b>TOTAL</b>	<b>21,938</b>

The Preferred Supplier will be required to liaise closely with each building manager/Head teacher during the preparation of the IGP and there will be scope to fine tune the proposals as appropriate.

Provided the IGPs meet the business case requirements it is proposed that the Corporate Director Community and Environment (in consultation with the Portfolio Holder) be authorised to enter into a contract with the Preferred Supplier for the delivery of this project. This delegation will minimise any delays in decision making and allow a substantial proportion of the works to be carried out during the summer holidays in 2012.

The Tender documents allow the council to proceed with further phases of the RE:FIT scheme without tendering for a different contractor. It is proposed that the performance of this initial phase be closely monitored and, subject to satisfactory performance, the Preferred Supplier be invited to submit DTAs for further subsequent phases. Further phases would be reported to cabinet at an equivalent stage i.e. prior to the seeking of IGPs.

At this stage three buildings will be excluded from the IGP: -

- Vaughan school. The school is currently being considered for a PFI, which could involve partial demolition of the existing building. The details of the PFI will be determined later on this summer. A decision of whether to progress to the IGP will be made once this process has been concluded.
- Weald school: This schools is also currently being considered for a PFI, which could involve demolition of the existing school. The details of the PFI will be determined later on this spring. A decision of whether to progress to the IGP will be made once this process has been concluded.
- The Teachers Centre. The future of the centre is currently being reviewed. A decision of whether to progress to the IGP will be made once this review has been concluded.

## 2.3 Financial Implications

All the schools that have agreed to meet the IGP costs (if they subsequently decide not to proceed with the scheme once IGPs have been received) will progress to the IGP stage. For the corporate buildings, any abortive costs would need to be contained within existing budgets.

The indicative prices from the Preferred Supplier are shown in Appendix A. In summary:

- Corporate buildings                      £71,300              (excluding the Teachers Centre)
- Schools    £507,600              (excluding Vaughan and Weald schools)

Note: It would be intended to progress the Teachers Centre, Vaughan and Weald schools once the above issues have been resolved. This would increase the above prices.

Appendix A also shows how it is expected that these anticipated costs are to be funded. Four streams of funding are shown: -

- Carbon Reduction capital budget. The capital allocation for Carbon Reduction is to be decided as part of the capital programme elsewhere in the Agenda. Within the Community and Environment section of the programme for 2012/13. Half of this allocation is expected to support the refurbishment of the civic centre through the installation of energy saving measures. It is proposed to allocate up to £162.1k to this programme (if all the properties in Appendix A were ultimately proceeded with). Each project will receive a minimum capital support of 15% of the initial costs. Where necessary the level of support would be increased slightly in order to reduce the pay-back period for each building to eight years – after taking into account contributions from Capital Maintenance
- There is also £720k, in the below the line section in relation to Carbon Reduction projects. It is proposed that this funding is made available to fund the projects in these reports subject to binding legal agreements to repay the capital funding by each school.
- Capital Maintenance. The authority retains a central Capital Maintenance budget to replace large items such as boilers. The list of projects includes a number of boilers which are due to be replaced and this element could therefore be supported centrally. Appendix A provides an indication of the possible level of support. The actual support would be dependent on the details of the final schemes and the availability of funding.
- School reserves and maintenance budget. Schools will from April 2012 have increased responsibility for day-to-day maintenance. Schools may be able to fund some of this work from their reserves or from their maintenance budget – where appropriate. The remainder of the sum would need to be borrowed..

London Energy and Efficiency Fund (LEEF). Repayable funding may be available from LEEF would be repaid from the guaranteed annual energy savings resulting from the installation of the

energy efficiency measures. Currently this is more expensive than alternative funding the council can access, however this would be reconsidered if relative costs of funding changed.

The reduction in carbon emissions will also result in reduced exposure to the Carbon Reduction Commitment – Energy Efficiency Scheme (CRC). Once implemented this will save the following amounts per year: -

	Carbon allowance @£12/tonne Until March 2013 Note 1	Carbon allowance @£16/tonne From April 2013
Corporate buildings (excluding Teachers Centre)	£750	£1,000
Schools (excluding Vaughan and Weald schools)	£4,000	£5,275

Note 1. - Savings in 2012/13 will depend on when the scheme is finished

Note that the government consulted on the application of CRC to schools in the autumn. Some of the options under consideration would mean that small schools would become exempt from the scheme and the above savings would no longer apply. However this would also mean that the exposure of the council's schools to the CRC would be significantly lower. The business case does not take into account the above CRC savings.

Reducing the council's carbon footprint under GHG (GreenHouse Gas) reporting would still be applicable

Reduced energy bills will also protect the council and schools from anticipated increases in energy prices

## 2.4 Legal Implications

It is recommended that all repayment obligations are expressly documented with the school governing bodies, together with any repayment arrangements that might be applicable on any future conversion to academy status

## 2.5 Performance Issues

This proposal will lead to a significant reduction in energy use in the stated buildings and a corresponding decrease in the council's carbon footprint. This is monitored by two measures on the Corporate Scorecard, reported to Cabinet in the Strategic Performance Report and targets will be adjusted in due course to take into account the effects of this initiative.

## 2.6 Environmental Impact

This proposal represents the first major programme the council has undertaken to introduce deep cuts in the amount of carbon it produces. The anticipated reduction of 685 tonnes represents: -

- A 2.8% reduction in the councils Greenhouse Gas (GHG) emissions, and
- A 3.9% reduction of in our CRC emissions.

As such it is an important step in delivering the council's climate change targets (of reducing carbon emissions by 4% a year).

The above figures will be adjusted to reflect the final position of Vaughan and Weald schools and the Teachers Centre

## 2.7 Risk Management Implications

A Risk Assessment of this project has been undertaken. The main risk was that the Supply chain is restricted in access to schools (out of hours) and this could result in higher costs and potential delays. The Preferred Supplier's tender has been closely examined and this is now considered to be controlled.

## 2.8 Equalities implications

An Equalities Impact Assessment has been carried out and confirms that there are no equality issues related to this proposal as it relates to improving the energy efficiency of the council's corporate estate and schools.

## 2.9 Corporate Priorities

This proposal incorporates the following corporate priorities

- **Keeping neighbourhoods clean, green and safe.**  
The proposal will reduce carbon emissions and energy consumption in the borough's estate (including schools).
- **Supporting and protecting people who are most in need**  
Not applicable
- **United and involved communities: a Council that listens and leads**  
Delivering the council's climate change energy reduction targets will demonstrate leadership to both residents and the business community
- **Supporting our Town Centre, our local shopping centres and our businesses**  
Not applicable

## Section 3 - Statutory Officer Clearance

Name: Kanta Hirani

on behalf of the  
Chief Financial Officer

Date: 30 Jan 2012

Name: Matthew Adams

on behalf of the  
Monitoring Officer

Date: 30 Jan 2012

## Section 4 – Performance Officer Clearance

Name: Martin Randall

on behalf of the  
Divisional Director  
Partnership, Development and  
Performance

Date: 5 Jan 2012

## Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker

on behalf of the  
Divisional Director  
(Environmental Services)

Date: 5 Jan 2012

## Section 6 - Contact Details and Background Papers

**Contact:** Andrew Baker, Head of Climate Change  
020 8424 1779  
andrew.baker@harrow.gov.uk

### Background Papers:

<http://www.harrow.gov.uk/www2/documents/g60259/Public%20reports%20pack,%20Wednesday%2015-Dec-2010%2019.30,%20Cabinet.pdf?T=10>

<http://www.harrow.gov.uk/www2/documents/g60264/Public%20reports%20pack,%20Thursday%2019-May-2011%2019.30,%20Cabinet.pdf?T=10>

**Call-In Waived by the  
Chairman of Overview and  
Scrutiny Committee**

**NOT APPLICABLE**

*[Call-in applies]*

## Appendix A – Anticipated Funding for project

Building	Total cost	Annual carbon saving	Annual Energy saving	Initial Payback period	Contribution from Carbon Reduction	Contribution from Capital Maintenance	Contribution from School Reserves & Maintenance Budget	Balance Funded by Invest to save borrowing <small>(Assuming no contribution from reserves)</small>	Final Payback period (on invest to save borrowing)
	Note 1 £000s	Note 1 Tonnes	Note 1 £	Note 1 Years	Note 4 £000s	£000s	£000s	Note 2 £000s	Note 3 Years
Bedford House	30.2	41.9	6,375	4.7	4.5	0.0	n/a	25.7	4.0
Bentley NRC	41.1	20.6	3,490	11.8	13.2	0.0	n/a	27.9	8.0
Belmont F&M school	79.2	58.7	8,857	8.9	11.9	0.0	tbc	67.3	7.6
Cannon Lane F&M school	116.1	78.4	12,755	9.1	17.4	0.0	tbc	98.7	7.7
Norbury F&M school	145.2	79.8	13,100	11.1	21.8	≈40.0	tbc	83.4	6.4
Stanburn F&M school	133.7	92.9	14,625	9.1	20.1	≈60.0	tbc	53.6	3.7
Whitefriars F&M school	33.4	19.8	3,250	10.2	7.4	0.0	tbc	26.0	8.0
<b>TOTAL for buildings included in IGP</b>	<b>578.9</b>	<b>392.1</b>	<b>62,452</b>		<b>96.3</b>	<b>≈100.0</b>		<b>382.6</b>	
Vaughan F&M school	138.6	69.3	10,810	12.8	20.8	≈35.0	tbc	82.8	7.7
Weald F&M school	190.0	142.0	21,365	8.9	28.5	0.0	tbc	161.5	7.6
The Teachers Centre	110.3	81.1	13,030	8.5	16.5	0.0	n/a	93.8	7.2
<b>TOTAL for buildings excluded at this stage from IGP</b>	<b>438.9</b>	<b>292.4</b>	<b>45,205</b>		<b>65.8</b>	<b>≈35.0</b>		<b>338.1</b>	
<b>TOTALS</b>	<b>1017.8</b>	<b>684.5</b>	<b>107,657</b>		<b>162.1</b>	<b>≈135.0</b>		<b>720.9</b>	

Note 1: Prices and savings based on Desk Top Audit. Final prices and savings will be obtained when Investment Grade Proposals are received.

Note 2: The responsibility for making repayments to LEEF will reside with the person/organisation paying the energy bills.

Note 3: Current payback period assumes no contribution from school's maintenance budget or reserves



## **Appendix A – Anticipated Funding for project**

Note 4: Contribution from Carbon Reduction budget is a minimum of 15%. Additional funding has been provided to reduce payback period to a maximum of 8 years