MUNICIPAL YEAR 2012/2013 REPORT NO. 205

MEETING TITLE AND DATE:
Cabinet 24th April 2013Agenda - Part: 1Item: 9Subject: Contract Award for Undertaking a
Programme of Energy Conservation
Works to Corporate Buildings and
Schools.
Wards: All KD 3670Subject: Contract Clir Bond

1. EXECUTIVE SUMMARY

- 1.1 This report concerns proposals to undertake a programme of energy conservation works to corporate buildings and schools by utilising the provisions of the Mayor of London's REFIT programme.
- 1.2 The REFIT programme has been developed and promoted by the Mayor of London and the Greater London Authority (GLA) in order to assist public bodies in London to reduce energy consumption.
- 1.3 The REFIT programme looks to deliver energy savings through the undertaking of Energy Conservation Measures (ECMs) whereby an Energy Service Company (ESCo) formulates the proposed work, designs and then installs it and guarantees that the measure will achieve a payback within a set time frame. Consequently the REFIT project transfers the risk that the energy conservation measure would not fully deliver the anticipated savings from the Council to the ESCo. The upfront capital funding of the works however remains with the Council but will in effect be refunded via the energy savings made on an 'Invest to Save' basis.
- 1.4 The Council has, following a competitive tendering exercise utilising the GLA REFIT Framework Contract, appointed a preferred supplier to develop costed ECMs with guaranteed annual energy savings and payback periods. This report seeks approval to enter into works contracts with the preferred supplier in order for the ECMs to be undertaken on site. For works to schools the written agreement of the school to the works and the repayments necessary to refund the costs will be a precursor to the letting of contracts.

2. **RECOMMENDATIONS**

- 2.1 To approve the letting of works contracts with Johnson Controls as detailed in Part 2 in order to undertake a programme of energy conservation measures to corporate buildings and schools as detailed in appendix one.
- 2.2 To note that a contract will not be let for works to a school until that school has agreed to the works and the payback provisions to refund the costs.
- 2.3 To note that the total cost of works in the IGP is within the tender estimates based on desktop study. Professional fees and project management costs are now estimated to be £79K for this project. Cabinet is asked to approve an increase of capital funding of £68K in the capital programme to accommodate these costs, in the event that no alternative funding sources (e.g. Salix) are available.
- 2.4 To note that this is a strategic sustainability project identified in the Enfield 2020 Action Plan.

3. BACKGROUND

- 3.1 The cost of energy is rising and is likely to continue to rise; particularly as coal fired power stations and ageing nuclear plants are closed over the next few years. It is forecast by Laser (the Council's energy buying consortium) that over the next four to five years there will be a further increase of around 60%. The cost of the CRC Energy Efficiency Scheme will also have an impact in the region of £380,000 in 2012 and has the potential to rise to over £1million by 2020. LB Enfield spends in the region of £5-6 million per year on energy across all of its assets.
- 3.2 The Council is therefore looking to undertake energy efficiency measures to its corporate buildings and schools such as replacement of inefficient plant and equipment (such as boilers or air conditioning plant), insulation, improved controls and low energy lighting. One method of procuring such works is via the REFIT Programme. REFIT is one of a number of energy conservation initiatives currently being pursued by the Council under the Enfield 2020 Sustainability Programme and Action Plan.
- 3.3 The REFIT programme has been developed and promoted by the Mayor of London and the Greater London Authority (GLA) in order to assist public bodies in London to reduce energy consumption on a scale not previously seen, thereby helping London achieve its overall target of cutting carbon emissions by 60% by 2025 (as set out in the Mayor of London's Climate Change Mitigation and Energy Strategy). The REFIT programme across London is overseen by the REFIT Programme Delivery Unit within the GLA. This unit also provides free technical and administrative support to Councils engaged in the programme.
- 3.4 The REFIT project looks to deliver energy savings through the undertaking of Energy Conservation Measures (ECMs) whereby an Energy Service Company (ESCo) formulates the proposed work, designs and then installs it and

guarantees the energy savings that the measure will achieve in order to deliver the payback within a set time frame. Consequently the REFIT project transfers the risk that the energy conservation measure would not fully deliver the anticipated savings from the Council to the ESCo. The upfront capital funding of the works however remains with the Council but will in effect be refunded via the energy savings made on an 'Invest to Save' basis.

- 3.5 A desk top study was carried out of the Council's corporate portfolio of buildings and schools by the officers and the REFIT Programme Delivery Unit in order to identify those buildings most suited for inclusion in the REFIT programme. Criteria such as current energy use per m2 against benchmark figures, the condition of the mechanical and electrical services, previous level of energy conservation work already carried out and any future proposals for the building. This identified at this stage some six corporate buildings and 19 schools that would likely to be of interest to the ESCOs. This report concerns phase one of the REFIT programme comprising three corporate buildings and 11 school sites as detailed in appendix one.
- 3.6 Schools have been advised of Enfield's REFIT project and those schools suitable for inclusion have been invited to join the project. All of the schools in phase one have agreed in principal to be included in the programme (subject to the final detail of the ECMs proposed payback and costs). Each individual school will subsequently be required to agree the works proposed for their school being undertaken and that they will use the guaranteed savings on their energy use to repay to the Council the capital costs (this will be done through an agreement between the school and with the Council).
- 3.7 REFIT will deliver the following benefits:
 - A transfer of risk from the Council as the required energy savings to fund the Energy Conservation Measures (ECMs) are guaranteed by the ESCo over the agreed payback period.
 - Increased opportunity to limit or avoid fines and penalties under the Carbon Reduction Commitment (CRC) by reducing energy consumption and carbon emissions.
 - Reduced cost of purchasing CRC allowances.
 - Reduced procurement times and officer costs by using a pre-selected framework of suppliers together with access to the provision of standardised contracts and a toolkit.
 - Specialist support from the REFIT Programme Delivery Unit. This includes the advising on the measurement and verification of the ESCOs work and subsequent performance and pay back of their energy conservation measures.
 - Access to the latest and most efficient energy saving products and processes from specialist suppliers in the field.

- Opportunities to "bundle" work across a portfolio of corporate buildings to maximise the benefits from retrofitting energy conservation measures.
- Improved Department of Energy Certificate ratings
- Cost and carbon emission savings
- Reduction in future maintenance costs as a result of plant and equipment improvements and renewals.
- 3.8 On 30th January 2013, the Council approved the final version of the Enfield 2020 Sustainability Programme and Action Plan, which contains 50 strategic projects, a number of which are designed to save energy. This is a key project identified in the Enfield 2020 Action Plan, which will save energy and deliver significant environmental benefits.

4. PROCUREMENT OF ENERGY CONSERVATION MEASURES UNDER THE REFIT PROGRAMME

The procurement process to undertake the ECMs comprises the use of a supply framework agreement established by the GLA. The procurement process to undertake the ECMs is split into two stages; firstly the appointment of a preferred supplier to develop various ECMs and secondly subject to them being satisfactory the actual undertaking of the ECM works on site.

4.2 Stage One

- 4.2.1 Under this framework buyers such as Enfield appoint an ESCo (Energy Service Company) to develop what is known as Investment Grade Proposals (IGPs). The IGPs comprise a binding price to undertake the ECM works, the technical details of the ECMs proposed, the expected benefits, the pay back periods and binding minimum annualised savings.
- 4.2.2 The preferred supplier is drawn down from the framework agreement by the holding of a mini-competition in order to select the best bid. Under the mini competition each supplier provides the Council with general but non-binding costs and types of Energy Conservation Measures that they expect to undertake to deliver the level of savings specified by the Council together with a guaranteed minimum level of annualised energy savings. The Council assesses the various bids and then appoints the ESCo providing the best bid as the preferred supplier.
- 4.2.3 Stage one of this processes, the holding of the mini competition and the subsequent appointment of the preferred supplier has already been completed by the Council with the appointment of Johnston Controls Ltd. The appointment of Johnson Controls being by an operational decision of the Director of Environment made on 3 December 2012.

4.3 Stage Two

- 4.3.1 The preferred supplier once appointed then develops the binding IGPs. The cost to provide the IGPs being ascertained as part of the stage one process (mini competition).
- 4.3.2 The Council then has the choice as to whether to accept the binding IGP offers from the ESCo. Should it decide not to do so it would be bound to pay the cost to the ESCo of developing the IGP so rejected. The IGPs are provided on an establishment by establishment basis, allowing the Council or a school to not go ahead with an individual IGP.
- 4.3.3 Once the IGPs have been agreed with the ESCo they are then contracted via a series of JCT Building Contracts to undertake the actual ECMs making up the IGPs on site. The ESCo then undertakes an agreed Measurement and Verifications plan to measure the success or otherwise of each ECM and to then make adjustments as necessary to ensure the contracted savings are delivered and that the pay back periods are met.
- 4.3.4 This report concerns the conclusion of stage two, the approval to accept the binding IGPs from Johnston Controls and authority to enter into a series of JCT Building Contracts in order to undertake the actual ECMs on site.

4.4 The proposed ECMs

- 4.4.1 The proposed ECMs vary from building to building and are detailed in appendix one of this report. The overall cost of the measures is £1,661,120 including fees. The saving arising from the ECMs based on current energy prices is £ £242,710 per year giving a payback of 7.1 years. Should as anticipated energy costs rise over the next seven years this payback period would reduce. Data from the REFIT Programme Delivery Unit indicates that the payback of 7.1 years for Enfield Council compares favourably with other REFIT programmes across London, which range form 6.6 years to 10 years. A breakdown of the overall costs and details of other organisations paybacks are provided in section 4.6 of the Part 2 report.
- 4.4.2 In total the ECMs are due to deliver 5,494,719 kWh of energy savings per year and 1309 tonnes of CO₂ per year.
- 4.4.3 The works include the replacement of the chillers to the Civic Centre and the provision of solar voltaic panels to the Block B roof. The works to the chillers will be programmed to commence after completion of the floor 10 refurbishment. The provision of solar voltaic panels will also be subject to planning permission.
- 4.4.4 Contracts to undertake the ECM on school buildings will only be entered into once the particular school has agreed to the works and the repayments needed to cover the cost of the works. If an individual school decides not to agree to the ECMs recommended for their school then that element will be deleted from the overall programme.

4.5 The Programme

The programme for the project is as follows:

Commence consultation with schools on the final detail of the IGPs	March 2013
Cabinet Key Decision approval to the IGPs and authority to enter into Works Contracts with the ESCo	24th April 2013
School approvals	April/May 2013
Commencing letting contracts and lead in	May/June 2013
ECM Installations commence	July 2013
ECM Installations completed for schools	End August 2013
ECM Installation works completed for corporate buildings	Spring 2014
Monitoring and Verification of energy savings/paybacks	Payback period

5. ALTERNATIVE OPTIONS CONSIDERED

- 5.1 To use the Council's existing repairs and maintenance programme to deliver energy savings. Work is underway to consider integration of Enfield's REFIT project delivery within Architectural Services.
- 5.2 To do nothing and to accept the cost of energy will rise and that the energy efficiency of buildings will deteriorate

6. **REASONS FOR RECOMMENDATIONS**

The letting of works contracts to Johnson Controls through the GLA framework for this first phase of the REFIT Programme delivers the opportunity:

- a) To undertake energy conservation measures to buildings that will improve their energy efficiency on an invest to save basis
- b) To provide guaranteed financial savings based on energy reduction.
- c) To reduce the number of CRC allowances that need to be purchased
- d) To improve building carbon management.
- e) To deliver a reduction in excess of 1300 tonnes of CO₂ per year.
- f) To provide a cost neutral solution in terms of a guaranteed maximum payback period to fund the cost of the energy conservation measures.

- g) To undertake a scheme that fulfils part of Enfield 2020 and its strategic priorities to save energy in buildings and help mitigate climate change.
- h) To undertake simplified and lower costs of procurement by the utilisation of the GLA framework contract.

7. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

7.1 Financial Implications

- 7.1.1 Phase 1 of the REFIT Programme is included in the Council's capital programme which has been presented to Full Council as part of the 2013/14 Budget Report. Based on desktop estimates provided by the contractor during Stage 1 of the process, £1,593K has been provided within 2013/14 capital budgets.
- 7.1.2 In addition to work costs, professional & technical fees and project management charge are estimated to be in the order of £79K for the Phase 1 programme.

Costs of all projects per IGP	£1,582K
Fees	£79K
Total	£1,661K

It is recommended that the capital budget for this project be increased to $\pm 1,661$ K.

- 7.1.3 Various funding options have previously been considered by the project team and these include London Energy Efficiency Fund (LEEF), SALIX interest free loan and unsupported borrowings. It is the Council's intention to submit an interest free loan application to SALIX Ltd. Due to its funding condition of project payback no longer than 5 years, there is no guarantee at this stage that our application will be considered by SALIX Ltd. Based on the outcome of the IGPs, the payback of these projects ranges from 6.1 to 8.4 years. In order to comply with the funding condition, the maximum amount of loan that the Council can apply for is circa £1M for all projects (assuming all schools agree to the works). This application, if successful, would significantly reduce the borrowing requirement and avoid interest costs in the order of £100K (assuming a short-term borrowing over the project's payback period). A more detailed financial model will be prepared when the interest-free loan is confirmed.
- 7.1.4 The contractor will be responsible for maintenance and verification of energy data during the payback period and there will be a minimal revenue cost of £4K per annum.

- 7.1.5 An annual fee (circa £5K) will be charged by Sustainability Services for validating energy data throughout the payback period and this income will be ring fenced to part fund the cost of this team going forward. Financial arrangements will be put in place to recovering this from energy savings achieved for both schools and corporate buildings.
- 7.1.6 In the event that the full costs are met from unsupported borrowing, the revenue borrowing implications of this project can be largely funded from savings in energy costs, reduction in carbon reduction commitment (CRC) levy and reduction in maintenance costs as set out below.

	Total
	£'000s
Borrowing @ 1.57% over 7 years	263
Energy Savings from year 2	(215)
Reduction in CRC levy	(16)
Reduction in maintenance costs	(12)
Contractor's charge on M&V	4
Sustainability team's fees	5
Net Total	29

- 7.1.7 The savings in energy and CRC costs are based on current prices. There are strong indications that both of these will increase substantially in future years, which will result in the savings being much greater than the cost of borrowing. However it should be noted that the increase arising from energy price uplift / carbon tax per tonne is not a cashable saving, instead helping avoid cost pressures.
- 7.1.8 For ECMs at school sites, a loan agreement will be set up with individual school concerned before works are undertaken. Financial arrangements will be put in place to offset the loan repayments against the schools' delegated budgets.

7.2 Legal Implications

- 7.2.1 The general power of competence as set out in s. 1(1) of the Localism Act 2011 states that a local authority has power to do anything that individuals generally may do. The proposed arrangements within this report are in accordance with this power.
- 7.2.2 The Council has a duty to provide information on its energy use in accordance with the Climate Change Act 2008 and the CRC Energy Efficiency Scheme Order 2010 which aim to provide a financial incentive to reduce emissions.
- 7.2.3 The Council's Constitution, in particular Contract Procedure Rules, permits the Council to call off from an existing framework in accordance with the terms of the framework. No issues of non-compliance with the framework terms and conditions have been raised.

- 7.2.4 Certain measures including the installation of photo-voltaic panels will require planning permission
- 7.2.5 The contracts must be in a form as approved by the Assistant Director for Legal Services.

8. KEY RISKS

- 8.1 Although highly unlikely, the cost of energy reduces and continues to reduce for the duration of the project, so reducing the effectiveness of the 'Invest to Save' budget.
- 8.2 The risk of the ESCo not achieving the reductions stated or the payback periods are not met. This is mitigated by the framework contract that requires the ESCo to make up the difference either by installing further energy saving measures or by financially making up the difference. Furthermore the payback period is based on the current cost of energy and if as is likely energy costs rise the payback periods are if anything likely to reduce.
- 8.3 The Council would be liable to the pay the ESCOs fees for developing the IGP for any site that the Council or a school decides not to progress. It is likely however that the IGP would in any case provide useful information concerning the potential for future energy management works under other programmes or initiatives and so would not be an entirely abortive cost to the Council.
- 8.4 A school disagrees with the level of energy savings made and contests the amount to be repaid to the Council. This is mitigated again by the likelihood of energy costs rising during the payback period and that a monitoring and verification process will be undertaken by the Council's energy unit and supported by the REFIT Programme Delivery Unit.

9. IMPACT ON COUNCIL PRIORITIES

9.1 Fairness for All

The Invest to Save proposals save money by saving energy, helping the Council to maintain the quality of its existing services

9.2 Growth and Sustainability

The project helps deliver Enfield 2020 and its strategic priorities to save energy in buildings and help mitigate climate change. Enfield's REFIT project aims to reduce the amount of carbon produced within the portfolio by >2,500 tonnes of CO_2 per year. This phase one of the programme plans to save some 1,300 tonnes of CO_2 per year.

9.3 Strong Communities

9.3.1 This stage of REFIT project is made up of three corporate buildings and 11 school sites. Benefits to the community will be the reduction of energy in

schools and the reduction of carbon emissions. The proposals also include the opportunity to install photovoltaic solar panels to the roof of the Civic Centre which would provide a visible example of community leadership, demonstrating to local communities that the Council and schools are investing in clean and sustainable technology.

9.3.2 The Service Contract with Johnson Controls includes the Council's community benefit clause with the contract requirements. Johnson Controls operate an apprenticeship scheme in the UK and have also confirmed they will where feasible use local suppliers and sub contractors.

10. EQUALITIES IMPACT IMPLICATIONS

Corporate advice has been sought in regard to equalities and this concluded that an equalities impact assessment/analysis is not relevant or proportionate.

11. PERFORMANCE MANAGEMENT IMPLICATIONS

The contract with Johnson Controls has a requirement for a Monitoring and Verification Plan to be established by which to manage their performance. The Council's Energy Unit will be responsible for managing the Monitoring and Verification Plan.

12. HEALTH AND SAFETY IMPLICATIONS

The letting of the works contracts will include all of the Health and Safety obligations required for contracts of this nature including the application of the CDM regulations. The Council will be acting as the CDM Co-ordinator and Johnson Controls as the Principal Contractor and Designer as required by the regulations.

13. PUBLIC HEALTH IMPLICATIONS

The REFIT programme will have a positive effect on public health. The reduction in carbon emissions arising from the programme will help to mitigate the effects of climate change.

Background Papers

None.