



City of Westminster

Cabinet Member Report

Decision Maker:	Cabinet Member for Housing Services
Date:	9 th July 2024
Classification:	General Release
Title:	Technical Services Provider – Future of Pimlico District Heat Undertaking (PDHU) – Fee increase
Wards Affected:	Pimlico South Ward, Pimlico North Ward
Policy Context:	<p>Fairer Housing – The future of PDHU business case review the options available for provision of reliable heat and hot water to residents connected to PDHU.</p> <p>Fairer Environment – Operating PDHU accounts for 40% of WCC’s operational carbon emissions. This project will review options to decarbonise PDHU in line with the 2030 net zero carbon target</p>
Cabinet Member:	Cabinet Member for Housing Services
Key Decision:	Key decision due to significant expenditure.
Financial Summary:	Current forecast fee for AECOM is £694,000
Report of:	Debbie Jackson, Executive Director – Regeneration, Economy and Planning

1. Executive Summary

- 1.1. Pimlico District Heat Undertaking (PDHU) is an important asset for Westminster City Council. PDHU provides heating and hot water to 3,300 homes and over 50 commercial buildings in the Pimlico area.
- 1.2. The existing PDHU network is over 50 years old. Due to its age, maintenance costs are increasing and the number of leaks from the network is increasing every year, a growing problem as the pipework deteriorates.
- 1.3. PDHU is currently powered by three 8MW natural gas boilers which emit 16k Tonnes of CO2 per annum, this equates to 39% of the Council's total carbon emissions in 2021/22.
- 1.4. The pipework across the network is also in urgent need of renewal and the Outline Business Case will investigate options for renewal of the system to improve reliability, reduce leaks and improve efficiency for residents.
- 1.5. The Outline Business Case is now under development and AECOM are a key partner in development of the technical solutions.

2. Recommendations

That the Cabinet Member for Housing Services

- 2.1. Approves a variation to the RIBA Stage 2 Order under the contract with AECOM Limited (company number 01846493) for additional services required totalling £168,579.67 excl VAT (£202,295.60 incl VAT) in value and that they note the extended programme to December 2024 in the RIBA Stage 2 programme.
- 2.2. Delegates authority to the Executive Director of Regeneration, Economy and Planning to agree any future increases in fee, and associated variation of the AECOM contract, in accordance with the Council's Financial Regulations subject to the total OBC expenditure (£1.2m) not being exceeded.

3. Reasons for Decision

- 3.1. This report requests Cabinet Member approval to a contract variation for additional services and a corresponding increase the contract value for AECOM who are currently providing Technical Services to the Future of PDHU Programme. The contract value will increase from £524k to £694k
- 3.2. The initial appointment covers services up to the end of the OBC (stage 2) with the option to extend to stage 4 (detailed design)
- 3.3. The increase in contract value is a result of scope and programme changes, including:
 - Further time for optioneering and shortlisting of options
 - Leadership and management time for extended programme up to December 24
 - Increased resident engagement activity

- Requirement to review and investigate additional heat network and direct electric options
- Development of 12 archetype reports

4. Background, including Policy Context

- 4.1. A Strategic Outline Case (appendix 1) for the project was endorsed by Capital Resources Group in January 2023. The appointment of Technical Support was included in the £1.2m budget allocated for the Outline Business Case. The Strategic Outline Case was also presented at Policy and Scrutiny Committee on 19th April 2023.
- 4.2. The Council ran a mini competition via the GLA's Local Energy Consultancy Framework Lot 4 for the provision of Technical Services for the PDHU project, and appointed AECOM as Technical Services provider in October 2023.
- 4.3. Development of an Outline Business Case (OBC) is in progress. The interim business case will be presented to informal cabinet in July 2024, with the final OBC due to be presented in December 2024.
- 4.4. The project is currently at RIBA Stage 2. At this stage, several options are being assessed and costed including but not limited to the use of a river source heat pump, thermal batteries, zoning and direct electric heating.
- 4.5. The services related to the variations below have already been delivered and can be considered retrospective. These variations an expansion of the requirement of the contract and consistent with services typically delivered at RIBA Stage 2 of the construction process.
- 4.6. First Variation CE01: In September 2023 AECOM were asked to provide a quote for the provision of CDM (Principal Designer) services during RIBA Stage 2, a total of £6,580.91 ex VAT.
- 4.7. Second Variation CE02: In November 2023 AECOM were requested to undertake additional surveys as there was insufficient network information needed to prepare mechanical, electrical and plumbing (MEP) high level designs. A scope and schedule were agreed and resulted in a cost increase of £13,206.64 ex VAT.
- 4.8. Third Variation CE03: In December 2023 AECOM presented a requested for additional time and costs valued at £84,164.73 ex VAT. This covered numerous hours on additional options analyses not in the original scope (thermal battery and connection to the SWAN project), data analytics of the additional options and additional surveys given the insufficiency of existing information. This third variation includes an extension in the programme from 7 months to 12 months.
- 4.9. Fourth Variation CE04: In March 2024 AECOM presented a request for additional time and costs valued at £64,627.39 ex VAT. These covered hours spent on additional qualitative assessment of electrical options for residential flats, an assessment of block-level air source heat pumps, preparation of a briefing deck for residents, additional time supporting the

creation of the “Interim Outline Business Case”, and engagement with third parties including resident-nominated experts.

- 4.10. The business case process for this project is complex with various stakeholders. The need for modification could not be foreseen as circumstances around stakeholder engagement and design requirements changed, this includes changes to the number of options following engagement with residents which required additional modelling and design review. This has led to an expanded requirement, although still within the RIBA Stage 2 scope of service which was included in the original mini competition procurement process. AECOM have had to undertake a number of additional options analyses, which have required additional surveys, resident and stakeholder engagement sessions and ultimately a considerably higher time allocation than could have been foreseen.

5. Financial Implications

- 5.1. The Strategic Outline Case (SOC) for the Future of PDHU project was endorsed by the Capital Review Group (CRG) in January 2023. This included endorsement to spend £1.2m to take the scheme to Outline Business Case (OBC).
- 5.2. The recommendations in this report are to approve an uplift in the total fee for AECOM to £694,000 to take the PDHU scheme to the end of RIBA Stage 2 (i.e. the OBC)
- 5.3. Ultimately the PDHU project will be a capital scheme but, while the Council is working up the detailed options, all spend will be funded through revenue (which is standard practice until the OBC is approved). Only at this point can it legitimately be transferred to capital and formally treated as an Asset Under Construction (AUC). CIL funding has been agreed to support this initial expenditure, with an additional £230k of grant funding awarded by the Heat Network Development Unit (HNDU)

6. Legal Implications

- 6.1. The contract for the provision of technical services for the Pimlico District Heating Undertaking decarbonisation and renewal project (the “Contract”) is subject to the application of the Public Contracts Regulations 2015 (“PCR”) and the Council’s Procurement Code. Accordingly, any variation to the Contract must be in compliance with the PCR.
- 6.2. Regulation 72(1)(c) of the PCR provides that a contract may be modified where all of the following conditions are fulfilled:
 - (i) the need for modification has been brought about by circumstances which a diligent contracting authority could not have foreseen;
 - (ii) the modification does not alter the overall nature of the contract;
 - (iii) any increase in price does not exceed 50% of the value of the original contract.

- 6.3. Section 3 of this report sets out the need for the variation (or modification) and why it could not have been foreseen. The additional services are within the scope of RIBA Stage 2 and therefore, the variation does not alter the overall nature of the contract. Finally, the increase in the value of the Contract is less than 50% of the original value. The Council may therefore, rely on the safe harbour provided by regulation 72(1)(c) for the variations set out in this report.
- 6.4. Regulation 72(3) PCR requires the Council to publish a modification notice in Find a Tender Service for the Contract variation.
- 6.5. Legal Services will assist with drafting the documentation for the variation of the contract.
- 6.6. Legal advice should be sought in respect of any further variation of the contract, including any further fee increase.

7. Climate Impact

- 7.1. PDHU contributes 39% of the total annual WCC carbon emissions and reducing these emissions are considered vital in achieving the 2030 net zero target
- 7.2. The Strategic Outline Case outlines the results of the feasibility study, identifying the shortlisted options to be reviewed as part of the Outline Business Case. This list of options has increased to include additional direct electric options.
- 7.3. A total potential carbon emission reduction of between 68% and 76% by 2030 is achievable depending on the final technical solution and approval of the project. The final level achieved will be influenced by the final scope of work and wider decarbonisation of the electricity network

8. Equalities Implications

- 8.1. The focus of this expenditure is consultancy fees therefore there is limited impact on Equalities. In the tender for the consultants there was a requirement for the bidders to include a diverse and inclusive team. AECOM committed to this and in addition proposed to use their Employee Resource Group (ERG) resources & partnerships to hold activities relevant to the sector & create an inclusive environment for the contract workforce

9. Procurement implications

- 9.1. The original procurement exercise was run via a Mini-Competition on the GLA's Local Energy Consultancy Framework and endorsed at CGRB (9 August 2023), Executive Director (10th August 2023) and Cabinet Member Report (11th August 2023).
- 9.2. A further report which relates to variations to the Order under the existing contract was submitted to CGRB on 17th April 2024 endorsing the paper. High level detail of each variation to date is detailed below.

- 9.3. The contract value allows for services across RIBA Stage 2 only. A follow up procurement activity will be required to formally appoint a consultant for RIBA Stage 3 and onward.
- 9.4. These variations are an expansion of the requirement of the contract and consistent with services typically delivered at RIBA Stage 2 of the construction process.
 - 9.4.1. **First Variation:** Provide a quote for the provision of Construction Design Management (CDM)/Principal Designer services during RIBA Stage 2, a total of £6,580.91 ex VAT.
 - 9.4.2. **Second Variation:** Undertake additional surveys as there was insufficient information needed to prepare mechanical, electrical and plumbing (MEP) high level designs. A scope and schedule were agreed and resulted in a cost increase of £13,206.64 ex VAT.
 - 9.4.3. **Third Variation:** Additional time and costs valued at £84,164.73 ex VAT. This covered numerous hours on additional options analyses not in the original scope (thermal battery and connection to the SWAN project), data analytics of the additional options and additional surveys given the insufficiency of existing information. This third variation includes an extension in the programme from 7 months to 12 months.
 - 9.4.4. **Fourth Variation:** Additional time and costs valued at £64,627.39 ex VAT. These covered hours spent on additional qualitative assessment of electrical options for residential flats, an assessment of block-level air source heat pumps, preparation of a briefing deck for residents, additional time supporting the creation of the “Interim Outline Business Case”, and engagement with third parties including resident-nominated experts.
- 9.5. The CGRB endorsement for all variations was received on 17th April 2024.

10. Consultation

- 10.1. The Strategic Outline Case for the project was presented at the Policy and Scrutiny Committee in April 2023, with an update presented to CAEH Committee in January 2024.
- 10.2. Cabinet members have been briefed on this paper and are also part of the project steering group, which has been provided with regular updates on progress.
- 10.3. Consultation and engagement with residents has commenced and ongoing, including a resident working group and community engagement events.
- 10.4. Ward Councillors have been briefed on the project and are also invited to the resident working group meetings. They will continue to be engaged throughout the business case process.

Background papers

CGRB Contract Report Gateway 3

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Chris Spicer, Programme Manager – cspicer@westminster.gov.uk

APPROVED BY

Name and Title	Date sent	Date approved
Executive Director of Regeneration, Economy and Planning	8 th July 2024	8 th July 2024
Strategic Finance Manager, Housing and Commercial Services	25 th June 2024	25 th June 2024
Senior Major Projects Lawyer Legal	7 th August 2024	8 th August 2024
Head of Governance and Councillor Liaison	23 rd July 2024	23 rd July 2024
Commercial Manager, Procurement Services	29 th July 2024	6 th August 2024

For completion by the Cabinet Member for Housing Services

Declaration of Interest

I have <no interest to declare /to declare an interest> in respect of this report



Signed:

Date: 21 August 2024

NAME: Cllr Begum, Cabinet Member for Housing Services

State nature of interest if any:

(N.B: If you have an interest, you should seek advice as to whether it is appropriate to make a decision in relation to this matter)

For the reasons set out above, I agree the recommendation(s) in the report entitled

INSERT REPORT TITLE and reject any alternative options which are referred to but not recommended.

Signed:



Cabinet Member for Housing Services

Date: 21 August 2024

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment:

If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Monitoring Officer and Section 151 Officer (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.