



**Author/Lead Officer of Report:** *Steve Parker, Housing and Neighbourhood Service*

**Tel:** 0114 273 6338

**Report of:** *Laraine Manley, Executive Director, Place*

**Report to:** *Cabinet*

**Date of Decision:** *19 June 2019*

**Subject:** *Heat Metering Re-tender*

Is this a Key Decision? If Yes, reason Key Decision:-	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
- Expenditure and/or savings over £500,000	<input checked="" type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to > <i>Neighbourhoods and Community Safety</i>		
Which Scrutiny and Policy Development Committee does this relate to > <i>Safer and Stronger Communities</i>		
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If YES, what EIA reference number has it been given? <i>(Insert reference number)</i>		
Does the report contain confidential or exempt information?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-		

**Purpose of Report:**

The purpose of the report is to obtain approval for Sheffield City Council to tender for, and award a new contract for the provision of Heat Metering Services for its District Heating network. Existing contractual arrangements are due to end in September 2019 and it is intended to award a new contract from this date.

**Recommendations:**

1) Approve the procurement of *District Heating Metering Services* via a Public Sector Framework Agreement as detailed and outlined within this report.

2) Delegate authority to the Director of Finance and Commercial Services in consultation with the Director of Housing and Neighbourhoods following such procurement exercise to award such contract and take such other necessary steps not covered by existing delegations to achieve the outcomes outlined in this report

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**Background Papers:**

None

<b>Lead Officer to complete:-</b>		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: Sarah Rani – <i>Commercial Services</i> Clare Jamieson- <i>Finance</i>
		Legal: <i>Henry Watmough Cownie</i>
		Equalities: <i>N/A</i>
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>		
2	<b>EMT member who approved submission:</b>	<i>Laraine Manley</i>
3	<b>Cabinet Member consulted:</b>	<i>Jim Steinke</i> <i>Paul Wood TBC</i>
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	<b>Lead Officer Name:</b> <i>Steve Parker</i>	<b>Job Title:</b> <i>Home Ownership and Revenues Manager</i>
	<b>Date:</b> <i>16/3/2019</i>	

## 1. THE PROPOSAL

### 1.1 Background

The “ District Heating” or “Community Heating” scheme operated by the City Council supplies heating and heating/hot water to almost 6,000 homes. The system provides heat and hot water to groups of properties from central boiler houses rather than using individual property boilers.

Running costs relating to District Heating are paid by the Council and charged to a separate account within the overall Housing Revenue Account (HRA).

The account is run on a self-financing basis with the total annual costs of approximately £2.7m being recovered by the Council from charges to customers.

Around 7/8 years ago plans were developed and approved by Cabinet to upgrade the city’s community heating sites with the installation of heat metering. This followed earlier investment in boiler plant refurbishment and internal controls to properties which allowed householders to better control/reduce their energy bills by paying for the actual heat used rather than through a flat rate weekly charge based on property size.

The contract for this project was for the installation of meters and associated works to approx. 6,000 dwellings on the District Heating network and for the associated management and administration of heat meters in terms of prepayment processes (inc. taking prepayments from customer by various means), data transfer to and from meters and for data analysis and reporting. The contract also included the requirement to provide the Council with a bespoke utility billing system (*It had been decided that the Council would operate a budget plan billing system for customers as an alternative to the prepayment method using heat cards*) and a specifically designed billing system was required to facilitate this.

The Contract was awarded to ENERG Switch 2 in February **2014** and they started installing meters within properties in March 2014 with an expected contractual duration time of 3 years for the installation of meters/equipment. The contract also allowed for an additional 1 year for the ongoing associated management and administration functions following the completion of the installation work, giving a total contract duration period of 4 years.

## 1.2 The Current Position

The initial contractual arrangements for the ongoing management and administration of heat meters now needs renewing and this report seeks to gain endorsement of the proposed approach for securing new contractual arrangements.

The Council have invested heavily into Heat Metering and we are not proposing to make significant changes or carryout adaptations to the equipment that was installed in customers' homes as part of the 2014-2017 installation programme. Therefore any new contractual arrangements for the management and administration of heat meters will need to be compatible with the existing equipment and the associated communication infrastructure already in place. It is also essential there is a swift and seamless transition from the old to the new contact, as it is of paramount importance there is no risk to the district heating provision for our customers.

Heat metering and the necessary infrastructure to operate it is quite complex involving constantly evolving technology and specialist expertise. It is considered to be a relatively unique and niche service sector with not a huge number of service providers.

Due to its complex nature the process of developing new contractual arrangements for this service has warranted a significant lead-in period and careful consideration involving extensive research (including 2 market testing exercises). A specific Project Group was set up which has met routinely over the last 16 months or so.

To ensure we arrive at the best outcome for the Council, it has been necessary for Commercial Services to extend the current contract (through a waiver of standing orders) up to September 2019 to allow sufficient time for a full appraisal of the evolving technology, the market conditions and of the overall variability of the options available.

The current annual cost for the contract is in the region of £280k to £320K per annum.

### **1.3 The Proposed Way Forward**

It is proposed that the new contract should be for 4 years with a break clause at years 2 and 3.

A contract of this length will allow us to both a) have an appropriate degree of longevity / stability and b) the necessary degree of flexibility in what is a relatively rapidly evolving service sector.

With the guidance of Commercial Services we have considered a full range of procurement options and the shortlisted ones are set out in section 5 of this report. However after considering the nature of this contract and taking on board the essential regulatory compliance/ value for money requirements, we are proposing to procure this through The Yorkshire Procurement Organisation (YPO) framework 642 for Utilities Metering and Data Collection Services – Lot 1 Heat Metering.

Further details of the proposed Procurement Strategy are set out below.

### **1.4 The Proposed Procurement Strategy for Heat Metering Services**

The preferred and most suitable route to market is to issue a call for competition under the YPO framework agreement. The contract will be for period of no more than 4 years (in compliance with framework guidelines) SCC has a long standing relationship with YPO who have a proven and established track record in delivering frameworks for use by the public sector.

The YPO framework for Utilities Metering & Data Collection Services was procured following an OJEU complaint process and awarded in Feb 2017 for 2 years with the option to extend for a two further periods of 12 months. The framework consists of 7 lots and we will be calling off Lot 1 – Heat Metering; this consists of a total of 5 suppliers including:

- Ista Energy Solutions Ltd
- Switch2 Energy Ltd
- Enica Ltd
- Energy Metering Technology Ltd
- Energy Assets Limited

Any further competition is carried out by the YPO Energy Team. The proposed timetable for the delivery of this procurement in compliance with OJEU and Public Procurement Regulations are set out below:

Dates	Stage
24 <sup>rd</sup> June	Call for Competition published
7 <sup>th</sup> July	Closing date
22 <sup>nd</sup> July	Evaluation
22 <sup>st</sup> July	Contract award
3 <sup>rd</sup> September	Contract start

## 2. HOW DOES THIS DECISION CONTRIBUTE ?

- 2.1 Since its introduction the heat metering scheme has proved to be very successful and feedback from our customers has been very good. On average they are saving around 40% on their heating bills to what they were paying before on the old fixed weekly charge under an unmetered supply. As we are using less fuel to source heating this also benefits the environment by lowering carbon omissions in the city

This decision will specifically allow us to implement new contractual arrangements that will enable this to continue and ensure we maintain high quality/efficient services for our district customers moving forward.

## 3. HAS THERE BEEN ANY CONSULTATION?

- 3.1 *Following the procurement a detailed consultation will take place with service users.*

## 4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

### 4.1 Equality of Opportunity Implications

- 4.1.1 Advice received that an EIA is not required.

## 4.2 Financial and Commercial Implications

- 4.2.1 Running costs relating to District Heating are paid by the Council and charged to a separate account within the overall Housing Revenue Account (HRA). The account is run on a self-financing basis with an overall annual cost of approximately £2.7m being recovered by the Council from charges to customers.

The annual cost for this specific contract is in the region of £280k to £320K per annum and provision has been set aside within the District Heating Account to accommodate these charges.

## 4.3 Legal Implications

- 4.3.1 Officers have been mindful of the importance of putting in place appropriate arrangements to secure the desired outcomes. Ensuring compliance with all necessary EU and Local Authority legal requirements, including TUPE where necessary. The proposed contract does have a value in excess of the European procurement thresholds. However, the proposed tender process does comply with the requirements of the Public Procurement Regulations 2015.
- Under the Landlord and Tenant 1985 and the Housing Act 1985 the Council is empowered to impose the service charge for this service, tenants having previously been consulted on the service charges.

## 4.4 Other Implications (none)

## 5. **ALTERNATIVE OPTIONS CONSIDERED**

As part of an extensive appraisal of the potential procurement options available to the Council, the following options were considered.

- ❖ Option 1 > Above OJEU Invitation to Tender for services (Open procedure)
- ❖ Option 2 > Call off via mini competition under a Public Sector Framework Agreement – options included YPO 642 Framework for Utilities Metering and Data Collection Services and Fife Council 10366 Framework for Heat Metering and Billing Services



- ❖ Option 3 > Renegotiate and extend the current contract through a waiver of Contracts Standing Orders

It was concluded that Option 3 which would seek a further waiver of Contracts Standing Orders would contravene PCR Regulations and present a serious risk of challenge from alternative suppliers in the market. This would also not provide the council the opportunity to test the market through a competitive exercise and therefore may not achieve value for money.

Option 1 would require a significant length of time in completing a full above OJEU threshold procurement exercise and would likely exceed the expiry of the current contract ending September 2019. Furthermore, this option would require further resources in terms of time and people.

Having considered all options through the regular project group meetings, (inc, advice from Commercial Services) Option 2 is recommended for the following reasons:

- The framework agreements are compliant with EU/UK procurement
- Pre-agreed terms and conditions all providers have signed and accepted this agreement and terms and conditions of call off.
- Assured supplier standards - suppliers are pre-qualified as to their general suitability, giving customers confidence in the quality of service/products they can provide
- Use of framework agreements is recognised best practice for the procurement of goods and services in public sector
- Reduced timescales - with no need to publish requirements by OJEU or pre-qualify suppliers
- Immediate access/use of frameworks
- Ability to use our own detailed and tailored specification
- can allow for direct call offs and also mini competitions

Both frameworks offer a compliant, cost effective and straight forward/quicker route to market consisting of multiple suppliers who have been pre-qualified and deemed suitable to provide the requested services. Furthermore, the incumbent suppliers Switch 2 are a named supplier on both frameworks.

## **6 . REASONS FOR RECOMMENDATIONS**

- 6.1 After considering the nature of this contract and taking on board the essential regulatory compliance/ value for money requirements, the best option for the Council is to award via mini competition under a Public Sector Framework Agreement

Out of the two available frameworks, The Yorkshire Procurement Organisation (YPO) is the favoured option, Sheffield City Council has a long standing relationship with YPO and they have a proven and established track record in delivering frameworks for use by the public sector.