

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD1505

### Title: Future of RE:FIT programme

#### Executive Summary:

This paper sets out proposals for RE:FIT after the current Programme Delivery Unit (PDU) comes to an end in September 2015. It demonstrates that to ensure retrofit continues at scale and that it results in the largest possible carbon savings, the best way forward post-September 2015 is to have an enhanced version of the current model of support, with a PDU procured and managed by the GLA alongside a new and enhanced RE:FIT framework.

#### Decision:

That the Mayor approves:

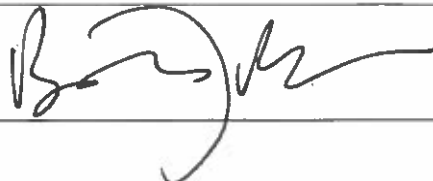
1. The extension of the RE:FIT Programme Delivery Unit contract with Turner and Townsend from September 2015 to March 2016 at the latest, to avoid any gap between the end of the existing PDU contract (September 2015) and the start of the new PDU up to a maximum expenditure of £192,000.
2. An enhancement of the activities of the current PDU in order that it can continue to build the pipeline of projects, at an estimated expenditure of up to a maximum of £43,000 in 2015/16.
3. The introduction of a charge to organisations towards the support they receive from the current, interim and future PDUs
4. The submission of an application to the European Regional Development Fund (ERDF) on the basis of 50% of the funding for the new PDU (£1.75 million), and, subject to a future approval, the provision of the required 50% match funding from GLA budgets (£1.75 million).
5. The procurement of a new PDU to cover three and half years from February 2016, subject to future budget approval.
6. The provision of support for the procurement and award of a new RE:FIT framework, to be procured by the GLA and Local Partnerships and to be administered by Crown Commercial Services, to be in place by early February 2016.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

18/06/15

## PART I – NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

### Decision required – supporting report

#### 1. Introduction and background

- 1.1 RE:FIT comprises a framework of suppliers to deliver retrofit works, plus an expert Programme Delivery Unit (PDU) that supports and enables public sector organisations in London to retrofit their buildings and make best use of the framework. The framework is based on an Energy Performance Contracting model whereby the suppliers guarantee the level of energy savings, thus offering a secure financial saving over the period of the agreement. The PDU is contracted until late September 2015 and the framework is due to expire in November 2016.
- 1.2 As well as the overall Mayoral target to reduce CO<sub>2</sub> emissions by 60% by 2025, there are a number of specific targets for RE:FIT:
  - to retrofit up to 600 buildings by the end of 2015 (440 buildings achieved/in the process of)
  - to generate annual savings of 45,000 tonnes of CO<sub>2</sub> by the end of 2015 (30,000 tonnes achieved)
  - to retrofit 1.6 million m<sup>2</sup> of public sector floor space by the end of 2015, 6.3 million m<sup>2</sup> by 2020 and 11 million m<sup>2</sup> by 2025 (1.3 million m<sup>2</sup> achieved)
  - to retrofit 100 GLA Group buildings by the end of 2015 (86 achieved)
  - to retrofit up to 200 schools by September 2016 (57 schools achieved – with a pipeline of a further 251)
- 1.3 The current phase of RE:FIT is funded by ELENA<sup>1</sup> (85%) and the GLA (15%) – a total of £2.781 million over four years. ELENA funding is conditional on the programme leveraging in a minimum of £60 million. This is on track, with the existing pipeline alone currently having a projected weighted contract value of £85,449,550.
- 1.4 The key challenges going forward are:
  - **There are still many public buildings in London requiring retrofit.** The programme has so far reduced London boroughs' carbon emissions by 17%<sup>2</sup> but a large number of organisations have not yet used RE:FIT.
  - **Public sector organisations continue to need support to retrofit their buildings.** The current PDU's pipeline is continuing to grow, demonstrating ongoing demand for their service and the framework. There remains a lack of expertise and capacity within most public sector organisations, so without the GLA's support many projects simply would not happen or would not be as extensive and successful.
  - **A new phase of RE:FIT could benefit the commercial workplace sector.** The GLA's Environment Team has recently undertaken a strategic review of retrofit in the workplaces sector. It concluded that RE:FIT should continue, given the GLA targets to reduce emissions from public buildings and the clear success of and value for money offered by the programme. It also recommended that the option for the model to be extended to the commercial sector should be explored.
  - **The RE:FIT framework needs replacing.** The current RE:FIT framework runs until November 2016. However, the energy services market has developed since the current framework was created, with new players entering the market and new approaches being developed. This means that the framework is no longer as competitive as it was or it could be.

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<sup>1</sup> The European Local ENergy Assistance (ELENA) programme is managed by the European Investment Bank

<sup>2</sup> Source: DECC (NI 185 – reduction in CO<sub>2</sub> from local authority operations)

## **2. Objectives and expected outcomes**

- 2.1 Following an appraisal of options for achieving CO2 reductions in London workplaces at scale into the future (summarised in Appendix 1), it is proposed the PDU model continues post-September 2015 (ie when the current PDU contract ends).
- 2.2 Given that it is anticipated that a new PDU would be part-funded by the ERDF and that this funding is unlikely to be secured before January/February 2016, it is proposed that two rounds of procurement take place:
  - for an interim PDU, from September 2015 to 31 March 2016 at the latest. It is proposed that this is undertaken by way of an extension to the call-off contract dated 20 September 2011 with the incumbent supplier, Turner and Townsend, with a contract value of up to £192,000.
  - for a long term PDU, probably from February/March 2016 and with a contract lasting for three and a half years (the maximum period for which ERDF funding is available).

### **An interim PDU**

- 2.3 It is proposed that the GLA fully funds the interim PDU, using up to a maximum of £192,000 of the £500,000 GLA funding earmarked for RE:FIT in 2015/16 for this purpose. During this interim period, the PDU will be expected to charge public sector organisations a fee towards the support they receive. The PDU will also take on the activities relating to the RE:FIT Schools Project Manager currently provided in-house at the GLA.
- 2.4 The existing PDU contract with Turner and Townsend will be extended from September 2015 to 31 March 2016 at the latest, to avoid any gap between the end of the existing PDU contract (September 2015) and the start of the new PDU (likely to be February/March 2016). This is an interim solution that is required to continue to provide support to public sector organisations and to continue to build the pipeline for the next PDU team. Not progressing with this interim solution would slow down the delivery of the RE:FIT programme, could disrupt the progress that has been achieved so far and ultimately is likely to negatively impact on the achievement of the Mayor's carbon reduction targets.
- 2.5 Turner and Townsend have been running the PDU team since September 2011 and are best placed to continue to provide support to public sector organisations until the new PDU is procured. The role of the PDU will expand very slightly to take on the activities relating to the RE:FIT Schools Project Manager currently provided in-house at the GLA.
- 2.6 Their role will be to manage the RE:FIT Framework and facilitate the uptake by London based public sector organisations. This involves promoting the Framework to public sector organisations through meetings and events, helping public sector bodies to identifying buildings and energy conservation measures, and writing the Project Brief and running a mini competition to select an Energy Service Company (ESCo) supplier who will retrofit their buildings and guarantee savings. In addition, the PDU will continue to provide technical support and guidance throughout the procurement process as well as basic advice regarding sourcing funding.

### **A new Programme Delivery Unit**

- 2.7 The estimated annual cost of a long term PDU will be up to £1 million. It is envisaged that half of this will come from ERDF and half from the GLA. This figure assumes that at minimum the new team will be of the size and with the skills and expertise of the current one. This comprises eight full time staff with expertise in marketing, procurement, technical, finance, legal and commercial aspects of RE:FIT, as well as administration/communication support.
- 2.8 It should be noted that the new PDU will be required to take on additional responsibilities, such as enhancing opportunities for solar PV and undertaking more intensive work with schools. While this should be achievable within the proposed funding, should other resources become available to the RE:FIT programme during the ERDF bidding period, the RE:FIT team will look at increasing the potential resources for the new PDU team.

### *European funding*

- 2.9 RE:FIT fulfils the objectives for the 2014-20 ERDF set out by the European Commission, the government and the London Enterprise Panel (LEP). The European Commission has '*supporting the shift to a low carbon economy across all sectors*' as one of its thematic objectives for the ERDF in 2014-20.
- 2.10 The ERDF programme was launched in March 2015, with a prospectus for applications expected in June. There is a two stage application process, involving an 'Outline Application' to be submitted by 20 May 2015 followed by a 'Full Application'. ERDF will require 50% match funding.

### *GLA funding*

- 2.11 The GLA's gross budget for RE:FIT for 2015/16 and beyond is £1 million a year (half from the GLA and half from anticipated income). This demonstrates ongoing Mayoral commitment to the programme and to its continuation following the end of the current programme, in recognition of the Climate Change Mitigation Energy Strategy RE:FIT targets for 2020.
- 2.12 The cost of the current PDU from April to September 2015 is being met by ELENA funding secured for the current phase of the programme. However, should a new phase of RE:FIT be agreed, the costs for this period will be exceed the available budget by £43,000. This is because instead of going into closedown mode, the PDU will need to continue to support and grow the pipeline, primarily through marketing, benchmarking and work with schools, in preparation for the new team.
- 2.13 It is proposed that both the extension of the current PDU's activities (between 1 April and 20 September 2015) and the interim PDU (between 21 September 2015 and 31 March 2016) are funded from the GLA's RE:FIT funding for 2015/16. It is further proposed that the GLA provides £0.5 million each year for three and a half years from February 2016 for the long term PDU (that is, 50% match for the ERDF funding).

### *Charging clients*

- 2.14 The GLA will pilot a new part-funding model between June and September 2015 whereby public sector organisations will make an upfront payment of between £2,500 and £3,000 at the benchmarking stage of the process. This could potentially create a pot of over £70,000 per year. The income raised during the pilot could potentially fund the GLA's RE:FIT schools project manager during this period (c£30,000). If the model is proven successful then a permanent funding model will be piloted by the interim PDU, between October 2015 and March 2016, with income reinvested in the GLA's retrofit programme.
- 2.15 The longer term PDU will also be expected to generate income for its services, with the ultimate aim of becoming self-funding. Proposing a suitable model for raising income will be part of the tender process for bidders. The PDU will also be tasked with rolling out their support to private sector workplaces and raising income (potentially at a higher cost recovery rate than for public sector organisations) through this route.

### **A new framework**

- 2.16 To continue London's leading position in energy performance contracting, it is proposed that a new improved RE:FIT framework is put in place, to help public sector users of RE:FIT and further develop this market sector. The procurement is likely to run from March 2015 to February 2016, at an estimated cost of around £150,000.
- 2.17 The procurement and award of a new RE:FIT framework will be administered by Crown Commercial Services working closely with Local Partnerships and the Greater London Authority. DECC has provisionally offered a contribution of around £100,000 towards the procurement costs of the new RE:FIT framework via Local Partnerships.
- 2.18 On the basis of the above funding arrangements proceeding, it is proposed that the GLA funds any shortfall in procurement costs that would be required for developing any bespoke contracts for London, likely to be between £50,000 and £100,000. However, should the DECC funding not be

confirmed, it is proposed that the GLA funds the full cost of the procurement. That would be sufficient funding for either option from the GLA's 2015/16 RE:FIT budget.

### 3. Equality comments

- 3.1 The GLA has taken and will take appropriate steps to ensure that there are no potential negative impacts expected on those with protected characteristics. Those with protected characteristics will gain from the positive benefits of these projects in equal measure should their properties be selected, and there will be equality of access to participate in the delivery and benefit from the programme, without discrimination.

### 4. Other considerations

#### Links to Mayoral strategies and priorities

- 4.1 The RE:FIT programme contributes to London becoming a world leader in improving the environment: identifying and investing in projects that reduce greenhouse gas emissions, reducing resource consumption and developing new green skills and services.
- 4.2 The programme will also contribute towards the achievement of the following aims and objectives of the Climate Change Mitigation and Energy Strategy:
- the overall target of cutting carbon emissions by 60% by 2025
  - Policy 8 - Retrofitting London's existing workplaces with energy efficiency measures and low and zero carbon microgeneration technologies - The Mayor, working with partners, will use public funds to develop commercial models that catalyse markets to retrofit workplaces with energy efficiency measures and low and zero carbon microgeneration technologies
  - 'Objective 3' of the Mayor's Economic Development Strategy to 'make London one of the world's leading low carbon capitals by 2025 and a global leader in carbon finance'
  - the specific RE:FIT targets set out in paragraph 1.2.

### 5. Financial comments

- 5.1 The proposal is for the RE:FIT programme to continue through
- an interim PDU to March 2016
  - an application for European Regional Development Fund funding to be matched by the GLA for a programme to operate to 2019/20
  - GLA involvement in a new framework procurement with Local Partnerships including a GLA financial contribution.
- 5.2 There is a further proposal to seek contributions from public sector organisations for RE:FIT assistance. Any such contribution would be ring-fenced for spend on that assistance only.
- 5.3 The GLA's 2015/16 budget includes a gross budget of £1 million for RE:FIT, of which £0.5m is GLA budget and the remainder is anticipated income. This is sufficient to cover the costs in the following table plus a contribution to the framework re-procurement in 2015/16 of not more than £181,600.

	Current PDU	Interim PDU			Long term PDU			
		2015/16			2016/17	2017/18	2018/19	2019/20 4 months
	1 April to 20 Sept 15	21 Sept 15 to up to 31 March 16	1 Feb to 31 March 16 (2 months of ERDF match)	Contingency for procurement and PDU model				
GLA funding	£43,000	£192,000*	£83,400	£181,600	£500,000	£500,000	£500,000	£166,600
Income - ELENA funding	£157,000	-	-	-	-	-	-	-

Recycled London Green Fund			£16,700		£100,000	£100,000	100,000	£33,300
Income - ERDF funding	-	-	£100,100	-	£600,000	£600,000	£600,000	£199,900
<b>Total</b>	<b>£200,000</b>	<b>£192,000</b>	<b>£200,200</b>	<b>£181,600</b>	<b>£1,200,000</b>	<b>£1,200,000</b>	<b>£1,200,000</b>	<b>£399,800</b>

Any income raised through partself-funding mechanisms would reduce the GLA contribution towards the cost of the PDU. The GLA has earmarked £500k for RE:FIT each year in its indicative budget for 15/16 and beyond.

\* Funding required between September 2015 to 31 January 16 is £140,000.

## 6. Legal comments

### 6.1 Sections 1-4 of this report indicate that:

6.1.1 The decisions requested of the Mayor fall within the GLA's statutory powers to do such things as may be considered to promote, or be facilitative of or conducive to the promotion of, economic development and environmental improvement in Greater London.

6.1.2 In formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- (a) pay due regard to the principle that there should be equality of opportunity for all people;
- (b) consider how the proposals will promote the improvement of the health of persons and the reduction of health inequalities between persons in Greater London, and contribute towards the achievement of sustainable development in the United Kingdom; and
- (c) consult with appropriate bodies.

6.2 Any extension of the existing PDU contract shall be agreed in writing with advice from Transport for London Legal.

6.3 The services required must be procured by Transport for London Procurement who will determine the detail of the procurement strategy to be adopted in accordance with the GLA's Contracts and Funding Code.

6.4 Officers must ensure that appropriate contract documentation is put in place and executed by the successful bidder(s) and the GLA before the commencement of the services.

6.5 Officers must work with the Finance and Transport for London Legal teams to ensure that any charging can be undertaken in accordance with the GLA's statutory powers, and that arrangements comply with all legal requirements. Broadly, the GLA has powers under the Local Authority Goods and Services Act 1970 to charge local authorities and certain other public bodies for services provided, and under section 93 of the Local Government Act 2003 to charge any other person for discretionary services on a cost recovery basis.

## 7. Investment & Performance Board

7.1 This paper was approved by the Housing Investment Group on 3<sup>rd</sup> March 2015.

## 8. Planned delivery approach and next steps

Activity	Indicative timeline
Agree arrangements RE:FIT procurement with LP and CCS	May 2015
Commence procurement	May 2015
Submit the ERDF Outline Application	20 May 2015
Start the part self-funding pilot	June 2015
Submit the ERDF full application	Summer 2015

Interim PDU in place	Late September 2015
Sign the ERDF funding agreement	January 2016
Long term PDU in place	From February 2016
Option 1: New RE:FIT framework procured	February 2016
Option 2: New RE:FIT framework procured	November 2016

## **Appendices and supporting papers:**

### **Other options considered**

#### **Option 1 Stop PDU support entirely**

A1.1 It could be argued that the Energy Performance Contracting model is now well established and that public bodies are now more familiar with it and no longer need support of the type provided by the PDU. This is not, however, borne out in practice. Almost all public organisations that have used or are using RE:FIT have very limited capacity within their organisation to procure, manage and execute the RE:FIT model. It is therefore clear that without support, many organisations would not proceed.

#### **Option 2 Set up a joint LP/GLA PDU**

A1.2 The GLA could work collaboratively with LP to jointly set up and manage a national PDU. However, a national team is less likely to have the same focus on the capital's targets as one devoted to London. In addition, LP's funding for their support team is currently relatively small and insecure. While this option has clear potential benefits, officers have discounted it for now but will continue to explore the feasibility of a partnership in the longer term.

#### **Option 3 Set up a wholly self-funded PDU**

A1.3 The GLA could set up an entirely commercial model, whereby fees charged to clients receiving support would cover 100% of the cost of the PDU. However, a fully commercial model based on the current costs of the PDU would not be competitive, as fees would need to be as high as or higher than those being charged by the private sector. In addition, while there are some part-commercial models being trialled, these have not yet been tried and tested. Notwithstanding this, there should be movement towards a more commercial and financially sustainable model for the next phase of RE:FIT, accommodating part if not full-funding from clients in the future but the intention is that GLA would not gain any profit from it just cover its costs.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

**Part 1 Deferral:****Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: The MD is to be published after award of the RE:FIT framework in order to secure best value for the GLA.

Until what date: 31 March 2016

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – NO**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to  
confirm the  
following (✓)

**Drafting officer:**

Virginie Caujolle-Pradenc has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

**Assistant Director/Head of Service:**

Jamie Ratcliff has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

**Sponsoring Director:**

David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

Richard Blakeway has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**EXECUTIVE DIRECTOR, RESOURCES:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

*M. D. Bell*

Date

11.6.15

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

*Edmund H. —*

Date

16.06.2015

