

Commissioning and Procurement Executive Committee – 14 February 2023

Subject:	NCC Enviroenergy Servicing and Maintenance Contracts		
Corporate Director: Director:	Frank Jordan – Communities, Environment and Resident Services Wayne Bexton – Environment and Sustainability		
Portfolio Holders:	Councillor Sally Longford – Energy, Environment and Waste Services Councillor David Mellen - Leader of the Council		
Report author and contact details:	Antony Greener, Head of District Heating and Waste Strategy Antony.greener@nottinghamcity.gov.uk		
Other colleagues who have provided input:	David Nicoll - Customer Service & Transformation Manager Cassie Twentyman - Senior Transformation Officer Alison Bennett - Senior Commercial Business Partner Tom Straw - Senior Accountant (Capital Programmes) Anthony Heath - Senior Solicitor, Contracts and Commercial		
Key Decision	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	Subject to call-in <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Reasons: <input checked="" type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision			<input checked="" type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital
Significant impact on communities living or working in two or more wards in the City			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Type of expenditure:	<input checked="" type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital		
If Capital, provide the date considered by Capital Board - 17/01/2022			
Total value of the decision: £10,022,989			
Wards affected: All Wards			
Date of consultation with Portfolio Holder: January 2023			
Relevant Council Plan Key Outcome:			
Clean and Connected Communities	<input checked="" type="checkbox"/>		
Keeping Nottingham Working	<input checked="" type="checkbox"/>		
Carbon Neutral by 2028	<input checked="" type="checkbox"/>		
Safer Nottingham	<input checked="" type="checkbox"/>		
Child-Friendly Nottingham	<input type="checkbox"/>		
Healthy and Inclusive	<input type="checkbox"/>		
Keeping Nottingham Moving	<input type="checkbox"/>		
Improve the City Centre	<input type="checkbox"/>		
Better Housing	<input checked="" type="checkbox"/>		
Financial Stability	<input checked="" type="checkbox"/>		
Serving People Well	<input checked="" type="checkbox"/>		
Summary of issues (including benefits to citizens/service users):			
<p>Nottingham City Council owns and operates the largest district heating network in the UK. As the plant ages (it is now 50 years old), continued maintenance has minimised the risk of service downtime. The plant must provide heating, hot water and power to its customers on a 24/7 basis for as many days of the year as possible.</p> <p>The complexity of works required is considerable and is reflected in the level of external specialist support required. However, the arrangements in place help contribute to securing business continuity, continuous improvement and best value. The decision by the Executive Board to hive up Enviroenergy Ltd into the Council, recognised the additional investment required to ensure the continued success of the District Heating Network. As part of the Asset Transfer Agreement between the company and the Council, company contracts including service and maintenance contracts, were</p>			

novated to the Council and the terms and conditions of these contracts continue to be relevant. To ensure goods, services and works continue to provide best value, approval is now sought to enter into new arrangements for the contracts and services required and detailed in the report and the exempt appendix, summarised below:

1. Provision of Welding, Repair and Maintenance Services
2. Water Treatment
3. Turbine Maintenance
4. Network Maintenance and Repair
5. Control System
6. Carbon Credits

The recommendations, if approved, will maximise the ability of the service to continue to provide heating and power supply services within the Council's Contract Procedure Rules, whilst also maintaining Council contractual obligations to the Eastcroft Incinerator and minimising the risk of service disruption.

Exempt information:

An appendix to this report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

It is not in the public interest to disclose the information because it may offer a competitive advantage to other companies tendering for future Council contracts.

Recommendations:

1. Approve the tender and award of new contracts for heat station and district heating maintenance, as detailed in table 1 of the report.
2. Approve extensions to the contracts for heat station and district heating maintenance, as listed in table 2 of the exempt appendix.
3. Approve the procurement of Carbon Credits through the use of a broker, to ensure that the Council complies with its statutory obligations in respect of the UK Emissions Trading Scheme.
4. Approve spend against the contracts listed in table 1 of the report and in the contracts and transactions listed in table 2 of the exempt appendix for the full duration of all contracts and transactions, including any extension(s).
5. Delegate authority to the Director of Environment and Sustainability to award contract extensions and to tender and award new contracts for services, purchase goods and/or works as detailed in the above recommendations.

1. Reasons for recommendations

1.1 Recommendation 1: Award of new contracts

Table 1 below sets out the requirement to tender for and award new contracts for the provision of the following services to support district heating, with a rationale for each contract required detailed below the table:

Table 1: Contracts for Tender and Award:

Contract	Term	Estimated Value	Estimated Value including Extension
Provision of Welding, Repair and Maintenance Services	5 Years plus extension options for 2+2 years	£2,000,000	£3,600,000
Water Treatment	5 Years plus extension options for 2+2 years	£450,000	£810,000
Turbine Maintenance	Up to 7 years	£2,000,000	N/A
Network Maintenance and Emergency Repair	5 Years plus extension options for 2+2 years	£3,000,000	£5,400,000
Scada Control Engineering System	Up to 6 years	£1,300,000	N/A

Provision of Welding, Repair and Maintenance Services

The contract for essential servicing and maintenance of the boilers and associated mechanical infrastructure including condensers and steam management systems is due for renewal. Boiler servicing and maintenance takes place continually as required and projects are identified, costed and agreed before Purchase Orders are raised on a job by job, call-off basis. If essential works, are not completed, the system may not be able to operate safely and there is a significant risk of losing the steam management systems meaning customers could be without a supply of heating and hot water for prolonged periods.

There is a requirement to secure the continued supply of this service and a new contract needs to be tendered and awarded for 5-years with options to extend by 2+2 years to ensure a suitable contractor is available to respond to emergency situations and schedule planned works as required throughout the contract term.

Water Treatment

The water treatment plant at the Combined Heat and Power (CHP) Station treats raw water from the on-site borehole/mains supply to produce boiler grade feedwater for the Eastcroft Energy from Waste (EfW) plant and district heating makeup water to replenish water losses. The closed water cycle feeds the generating turbine at the London Road Heat Station as well as the District Heating Network and Eastcroft EfW. The Environmental Permit under which the Council operates requires improvements to be delivered, best achieved through modernising the current water treatment process.

The technical solution chosen will remove chemical water dosing arrangements and replace this with reverse osmosis technology to remove the requirement to store bulk

hazardous chemicals on site. A new contract is to be specified, tendered and awarded for 5-years with options to extend the contract term by 2+2 years if required to ensure that the improved water treatment requirements are delivered.

Turbine Maintenance

The Council owns and operates a turbine from its London Road Combined Heat and Power (CHP) Plant and requires expert external assistance in the effective management and maintenance of this asset. The current contract has expired and requires a new arrangement to be secured until 2030 which is the expiry date of the Council's steam supply Agreement with the operators of the Eastcroft EfW plant.

Network Maintenance and Emergency Repair

The Council must retain the ability to respond to leaks or other repairs required on the District Heating network so that disruption to heating services is minimised. Essential maintenance and emergency repairs of the district heating network is completed with the assistance of external contractors where required and the contract is due to expire shortly. The Council therefore needs to procure and award a new contract for 5-years with options to extend the new contract term by 2+2 years if required.

Control Engineering System (Scada)

Supervisory control and data acquisition (Scada) is a control system architecture comprising computers, networked data communications and graphical user interfaces for high-level supervision of machines and processes. It also covers sensors and other devices, such as programmable logic controllers, which interface with process plant or machinery.

The support required is currently provided by an annually renewed Service Support Agreement. However, the service has identified a requirement to work with Corporate Procurement to investigate options for securing best value in maintaining a Scada system for the longer term, and tender for and award any necessary new contracts as required.

1.2 Recommendation 2: Extension to Contracts

Contained within the exempt appendix to the report.

1.3 Recommendation 3: Procurement of Carbon Credits

The Greenhouse Gas Emissions Trading Scheme Order 2020 places statutory obligations on the Council to offset its fossil fuel consumption utilised in the delivery of district heating through the purchase of Carbon Credits under the regulated UK Emissions Trading Scheme. The methodology for procuring the required Carbon Credits is contained within the exempt appendix to the report.

1.4 Recommendation 4: Contract Value

The estimated contract values are detailed in table 1 of the report. The values of the contract extensions or transactions are detailed in table 2 of the exempt appendix. Approval is sought to raise the requisite purchase orders up to the values listed within the appropriate contractual or transactional arrangements.

1.5 Recommendation 4: Delegation of Authority

To expedite the award of contract extensions and contract tenders and awards, approval is sought to delegate authority to enter into the arrangements to the Director of Environment and Sustainability.

2. Background (including outcomes of consultation)

- 2.1 Nottingham City Council owns and operates the largest district heating network in the UK offering affordable and environmentally friendly heat and electricity. The network serves circa 5,000 domestic properties and circa 120 commercial properties. The London Road Combined Heat and Power Station and the network it supplies was built in the 1970's and has had various works completed since installation making it a unique industrial process, far from the original plant constructed. Continued maintenance has minimised the risk of service failure, but over time, the assets of the plant are no longer standard equipment and would require lengthy periods of familiarisation and mobilisation to deliver confidence to the service that works and maintenance procured can be delivered to the required standard. Minimising the risk of service disruption is a key consideration in the award of any new maintenance contract.
- 2.2 The decision by the Executive Board to hive up Enviroenergy Ltd into the Council, recognised a requirement to invest additional resources in District Heating infrastructure to ensure the continued success of the District Heating Scheme in Nottingham. Appropriate investment commitments were approved within the Council's MTFP, and as part of the transfer of the company into the Council, it was agreed that existing maintenance or supply contracts would be novated from Enviroenergy Ltd to the Council and the terms and conditions of these contracts would continue to be relevant.
- 2.3 Alongside the ongoing servicing and maintenance requirements for the plant and network, there is an annual shutdown performed each year where essential maintenance is completed to enable the continual delivery of heat and power to the scheme's domestic and commercial customers.
- 2.4 Failure to perform ongoing servicing and maintenance to the plant and network will increase the risk of a catastrophic failure of the system, which could lead to the plant and network being shut down, with potentially long lead times for services to be reinstated, particularly where no incumbent contracts and suppliers are in place. Failure to complete the ongoing servicing and maintenance required also poses a major health and safety risk to all employees and customers due to the high-pressure steam supply, hot water and high voltage electricity supply. If regular maintenance and health and safety inspections are not completed on these assets, there is a danger to life due to the nature of the activities which take place at the plant and on the network.
- 2.5 The report seeks approval to commence tenders and award contracts for maintenance contracts, and where required to extend existing contracts with incumbent providers as detailed in the exempt appendix.

3. Other options considered in making recommendations

- 3.1 Do nothing – If the Council does not award contracts or extensions to contracts:

Welding Repair and Maintenance	<ul style="list-style-type: none"> - Risk of Failure and shutdown of service - Risk of statutory non-Compliance of Health and Safety requirements - Non-compliance with Environmental Permit
Water Treatment	<ul style="list-style-type: none"> - Risk of statutory non-Compliance of Health and Safety requirements - Non-compliance with Environmental Permit - Risk of damage to district heating or EfW assets or force shutdown of service to avoid this - Risk of contract breach with Eastcroft Incinerator
Turbine Maintenance	<ul style="list-style-type: none"> - Risk of Failure and shutdown of service - Risk of statutory non-Compliance of Health and Safety requirements
District Heating Network Maintenance	<ul style="list-style-type: none"> - Risk of Failure and shutdown of service - Risk of statutory non-Compliance of Health and Safety requirements
Control Engineering System	<ul style="list-style-type: none"> - Shutdown of service with no operating system - Risk of statutory non-Compliance of Health and Safety requirements
Carbon Credits	<ul style="list-style-type: none"> - Non-Compliance with statutory obligation under the UK Emissions Trading Scheme

4. Consideration of Risk

4.1 The procurements identified within the report and exempt appendix are essential to the successful operation of the heat station and district heating network. Without secure supply chains the service is exposed to the considerable risk of not being in a position to rectify issues which cause disruption to service in the timeliest way available. Additional risk analysis, specific to each contract is detailed within the exempt appendix.

5. Finance colleague comments (including implications and value for money/VAT)

5.1 The total estimated value of the new contracts (excluding any contract extensions) detailed in this report is £8.750m. It is assumed, based on the work undertaken in

relation to the existing contracts, that some of the work will be eligible to recharge to capital. The assumed split is shown in the table below

Total Value of New Contracts	Estimated Revenue Expenditure	Estimated Capital Expenditure
£m	£m	£m
8.750	5.750	3.000

- 5.2 The Capital Programme include 2 schemes in relation to the maintenance of the Heat Stations and the maintenance of the infrastructure (i.e. pipes). The 2023/24 Capital Programme has a cumulative budget of **£6.6m** for these schemes which is funded by Capital Receipts, this is more than sufficient for the above estimated expenditure. Spend beyond March 2024 is contained within the Deferred Planned section of the Capital Programme and further capital budget will be re-introduced once funding has been identified.
- 5.3 The estimated revenue expenditure of £3.000m will be incurred over the life of the contracts (between 5 and 7 years' dependent upon the specific contract). An estimated annual revenue contract value for each applicable contract is shown in the table below

Contract Details	Total Estimated Revenue Cost	Estimated Annual Revenue Cost
	£m	£m
Welding Repair and Maintenance	1.250	0.250
Water Treatment	0.200	0.040
Turbine Maintenance	1.500	0.214
District Heating Network Maintenance	0.050	0.10
TOTAL	3.000	0.514

There is an existing approved revenue budget to cover Enviroenergy's service and maintenance costs of £0.999m, which should be sufficient to cover the annual estimated revenue costs for the new contracts covered in this report.

Alison Bennett, Senior Commercial Business Partner and Tom Straw, Senior Accountant (Capital Programmes) - 3 February 2023

6. Legal colleague comments

- 6.1 This report seeks the extension of identified contracts or authority to undertake a tender process for necessary services to support the provision of energy to domestic and commercial customers from the district heating system and authority to incur the associated costs.
- 6.2 The contracts were novated from Enviroenergy Limited to Nottingham City Council as part of the business transfer that took place in 2021. As the contracts were novated, the only change to the contracts on novation was to replace Enviroenergy Limited with Nottingham City Council as a party to the contract; all other terms remained the same, including duration.
- 6.3 For those services where authority is sought to undertake a tender process, as long as that tender process complies with the Public Contract Regulations 2015

and our own constitution, this route to market present no significant legal concerns.

- 6.4 For the services where a contract extension is sought in accordance with provisions of the Council's Contract Procedure Rules, as long as those rules have been applied appropriately, and where relevant in accordance with the Public Contract Regulations 2015, this should present a manageable risk for the Council.
- 6.5 Legal Services will continue to support both the procurement and contract extension process.

Anthony Heath, Senior Solicitor, Contracts and Commercial - 1 February 2023

7. Other relevant comments

7.1 Procurement Comments

- 7.2 The proposal to tender the contracts listed in table one is accepted. Procurement will work with the team to and advise on processes to identify best routes to procure the goods, service and works as well as supporting them to undertake any tenders during 2023/24 in line with Public Contract Regulations 2015. All extensions listed in the exempt appendix are considered to be permitted within Contract Procedure Rules or where relevant Public Contract Regulations 2015.

Steve Oakley, Head of Procurement - 1 February 2023

8. Crime and Disorder Implications (If Applicable)

- 8.1 Not Applicable.

9. Social value considerations (If Applicable)

- 9.1 Procuring best value and best quality for residents and commercial customers of the district heating scheme will ensure that we are able to deliver low-cost heat and power to residents and commercial customers across the City. This will aid in tackling fuel poverty across the City. Securing the essential supply chains identified in the report will ensure we can guarantee the longevity of the heat and power supply to local residents and businesses and also ensure we continue to offer local jobs for local people at the plant and across the network. Maintaining the plant and network to ensure its continued operation is also contributing to the Council's ambition to be Carbon Neutral by 2028.

10. Regard to the NHS Constitution (If Applicable)

- 10.1 Not Applicable.

11. Equality Impact Assessment (EIA)

- 11.1 An EIA is not required because the report does not contain proposals for new or changing policies, services or functions, financial decisions or decisions about implementation of policies development outside the Council.

12. Data Protection Impact Assessment (DPIA)

12.1 A Data Protection Impact Assessment will be completed on the approved commissioning model, and due regard will be given to any implications identified within it.

13. Carbon Impact Assessment (CIA)

13.1 A Carbon Impact Assessment will be completed on the approved commissioning model, and due regard will be given to any implications identified within it.

14. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

14.1 None.

15. Published documents referred to in this report

15.1 [The Greenhouse Gas Emissions Trading Scheme Order 2020](#)