GREATER**LONDON**AUTHORITY

REQUEST FOR ASSISTANT DIRECTOR DECISION – ADD2013

Title: RE:NEW Support Team Contract Variation

Executive Summary:
In 2014, Capita were contracted to provide domestic energy efficiency support. Targets in relation to financial leverage and carbon savings were set out in their contract with financial incentives to achieve them.

As at 31 March 2016, the programme had exceeded the leverage target 16 months ahead of time but due to unforeseen and challenging market conditions the carbon targets are not now likely to be achieved. This decision approves a variation of the incentivisation terms of the contract with Capita in order to provide sufficient incentive to maximise performance. These changes will be applied retrospectively at a cost of £31,646 relating to costs incurred to 31 March 2016 and, if relevant targets are achieved, could involve up to an additional £11,823 of cost to the end of the programme.

Decision:

That the Assistant Director approves a contract variation to contract GLA 84054 - RE:NEW Support Team, approved through MD1289, to amend the incentivisation model with Capita to cover performance from 1 July 2015. The contract variation involves a payment of £31,646 (met from the allocated RE:NEW budget for the 2016/17 financial year) and up to £11,823 in costs that could be incurred in 2017/18 financial year, with a total cost to the GLA of up to £43,469.

AUTHORISING ASSISTANT DIRECTOR/HEAD OF UNIT:

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: Jamie Ratcliff

Position: Assistant Director, Programme, Policy and Services, Housing and Land

Signature:

Date: 25/1/17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE
Decision required – supporting report

1. Introduction and background

1.1 This phase of the RE:NEW programme, approved through MD 1289, is jointly funded by the European Investment Bank (EIB) ELENA facility and the GLA, providing funding of £2,513,700 (90 per cent) and £279,300 (10 per cent) respectively. It supports organisations such as London boroughs, housing associations, and universities to develop retrofit projects. It is doing this through:

- the RE:NEW Support Team, an expert team providing the end to end support needed to get projects up, running and successfully implemented
- the RE:NEW framework of suppliers, which saves time and resources for organisations that are procuring retrofit services and works

1.2 The EIB grant agreement requires the GLA to leverage its investment by a factor of 1:20 (c£50m). In 2013 the GLA established more stretching targets for this phase of the RE:NEW to support the retrofit of 175,000 homes, save 93,000 tCO_2 through attracting investment of £352m by 2017 (a leverage factor of 1:140).

1.3 When the GLA tendered for the RE:NEW Support Team services, the tender specification set out the overall programme KPIs and two incentivised KPIs. These were capital investment and contracted CO_2 savings at the more stretching levels set out above.

1.4 The RE:NEW Support Team delivery partner selected by the GLA through a competitive tender exercise, put 20 per cent of fees at risk (ten per cent for each of the incentivised KPIs). Under the contract the incentivisation model may be reviewed at two contract points, at months 12 and 24. The proposed change is in line with the provisions within the contract.

1.5 As at 31 March 2016, this phase of the RE:NEW programme had supported c£66.5m worth of contracts to retrofit c13,500 homes, and save c14,300 tCO_2. This represents an overachievement against the EIB leverage target 16 months ahead of time. However, there is a serious risk that more ambitious targets set in 2013 will not be met. This risk is due to unforeseen and challenging market conditions, including significant reductions in ECO funding and solar PV feed in tariffs, and the cessation of the Green Deal and associate funding schemes, as well as the one per cent rent reduction for social housing providers, the extension of the Right to Buy and the sale of high value council homes.

1.6 Despite the market conditions there is a very high uptake of RE:NEW Support Team Services (c70 organisations are signed up for support) and a continuing high level of service from the delivery partner and excellent programme management from the GLA.

1.7 It is forecast that under the existing terms of the incentivisation model, Capita's fee would be c£191,000 less than the maximum amount over the whole term of the contract.

1.8 In recognition of the changes to the market, which are completely outside of the control of the delivery partner, the GLA, the delivery partner and the EIB have discussed changes to the incentivisation model. All parties have provisionally agreed that reducing the percentage of delivery partner fees at risk from 20 per cent to 17.5 per cent across all project resources, backdated to the first incentivisation model review point in July 2015, would be a fair approach that would continue to provide sufficient incentive to achieve stretching targets.

1.9 The cost of the proposed change is c£31,646 in relation to costs that the contractor has already incurred and is estimated to increase fees to Capita by c£11,823 over the remainder of the contract – a change of c£43,469 in total. This would require a nil value contract variation involving a variation to the terms of the incentivisation model only.

2. Objectives and expected outcomes

2.1 The objective of this decision is to facilitate a change to the RE:NEW Support Team incentivisation model in recognition of the challenging market conditions which are completely outside of the control of the delivery partner.

3. Equality comments

3.1 The GLA has taken 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 the RE:NEW programme in equal measure, and there will be equality of access to participate in the delivery and benefit from the Portal, without discrimination.

4. Other considerations

a) Key risks and issues

Risk #	Risk description and impact	Risk owner	Inherent risk assessment			Control measures / Actions	Deadline /Completed	Action owner	Residual risk assessment		
			Prob.	Impact	Overall				Prob.	Impact	Overall
1	The GLA ELENA funding contract has a minimum leverage factor is 1:20. This represents 20 times (£50,274,000) the amount of the total contribution by the European Investment Bank (£2,513,700). If the programme were to deliver below this point then the EIB could potentially claw back the entire ELENA fund from the GLA. This change to the incentivisation model would lead to £37,600 less underspend available for claw back in the event of this risk materialising.	Kore Mason	1	1	1	As at 31 March 2016 this phase of the RE:NEW programme had supported contracts worth c £65m. This represents an overachievement against the EIB leverage factor 16 months ahead of time. This achievement will be formalised through EIB processes in August/September 2016.	30.09.16	Kore Mason	1	1	1
2	EPMF* panel contractors may seek to challenge the modification of the incentivisation model. * The EPMF is the framework which the delivery partner was selected from following a competitive procurement process.	Kore Mason	1	1	1	The EPMF mini competition ITT sets out the potential to review the incentivisation model at months 12 and 24. This change is in line with the provisions therein.	31.07.17	Kore Mason	1	1	1
3	Reduction of the percentage of fees at risk may be viewed by stakeholders as rewarding the delivery partner for failure.	Kore Mason	2	1	2	There is a very high uptake of RE:NEW Support Team Services (c70 organisations are signed up for support) and a high level of service from the delivery partner has been observed by the GLA Programme Manager since programme inception. Under delivery against KPIs is attributed to challenging market conditions impacting the programme.	31.07.16	Kore Mason	2	1	2

b) Links to Mayoral strategies and priorities

4.1 The RE:NEW programme will help London become a world leader in improving the environment: identifying and investing in projects that reduce CO_2 emissions, reducing resource consumption and developing new green skills and services.

4.2 The programme has contributed towards/will continue to contribute towards achieving the following aims and objectives of the Climate Change Mitigation and Energy Strategy:

- the overall target to cut carbon emissions by 60 per cent by 2025;
- Policy 6 - Retrofitting existing homes with energy efficiency measures, water efficiency measures, and low and zero carbon micro-generation technologies (retrofitting of energy efficiency, energy supply, and water efficiency measures to 1.2 million existing homes in London by 2015, and all homes in London by 2030);
- Policy 7 - Tackling fuel poverty in London.

4.3 It will also contribute to objective 3 of the Economic Development Strategy to "make London one of the world's leading low carbon capitals by 2025 and a global leader in carbon finance".

4.4 In addition, it will continue to maximise delivery towards the current RE:NEW phase three targets to support the retrofit of 175,000 homes and save 93,000 tCO_2 annually by 2017.

c) Impact assessment and consultations

4.5 Consultation on this decision has been undertaken by the RE:NEW Programme Manager with the EIB, GLA Governance, Legal and Procurement teams as well as the delivery partner.

5. Financial comments

5.1 This decision requests approval for contract variation with Capita for the RE:NEW Support Team that will result in a total cost to the GLA of up to £43,469.

5.2 The funding request will be split between two financial years as follows:

5.3 £31,646 relating to costs incurred to 31 March 2016. These costs will be met from the allocated RE:NEW budget for the 2016/17 financial year.

5.4 £11,823 relating to costs that will be incurred in 2017/18 financial year. The confirmation of this funding is subject to the finalisation and sign-off of the 2017/18 budget by the Mayor.

5.5 Any changes to this proposal, including the requirement for additional funds, will be subject to further approval via the Authority's decision making process.

6. Planned delivery approach and next steps

Activity	Timeline
Prepare contract variation	06.02.17
Sign off contract variation	20.02.17

Appendices and supporting papers:

Appendix 1 – Incentivisation model

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:

Publication should be deferred until the contract variation has been executed by both parties for commercial reasons.

Until what date: 20/02/2017

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:
Kore Mason (and subsequently Ben Coombes) has drafted this report in accordance with GLA procedures and confirms that the Finance, team has commented on this proposal as required, and this decision reflects their comments.

Corporate Investment Board:
The Corporate Investment Board reviewed this proposal on 23 January 2017.

HEAD OF FINANCE AND GOVERNANCE:

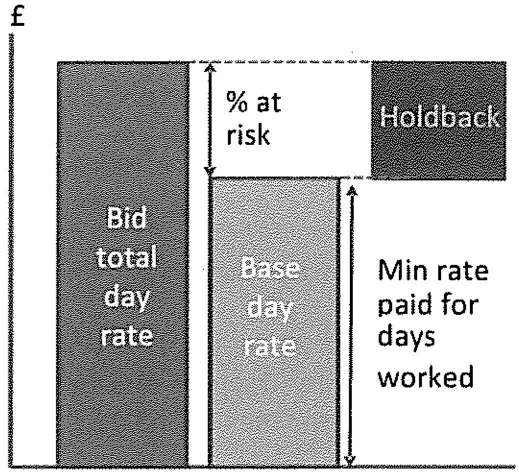
I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature: M. F. A **Date:** 26.01.17

Appendix 1: Incentivisation model (excerpt from the RE:NEW Support Team ITT)

1. Incentivisation

1.1. The GLA want to ensure value for money and a continued performance focus from the Support Team contract. An incentivisation model will therefore be used as detailed in Appendix 6 and summarised below.



1.2. Incentivisation approach summary:

- Tenderers will bid total day rates.
- GLA set a minimum % at risk in tender.
- Tenderers can bid the % at risk equal to or above minimum.
- If Contractor achieves all the targets in the relevant time periods, they get the full day rate bid.

1.3. The minimum day rate at risk is set at 10%.

1.4. The incentivisation model performance is measured against 2 KPIs:

	Key Targets Areas	Measure
1	Contracted CO_2 Savings	Expected CO_2 savings from contracts signed by client organisations (where a support plan have been signed)
2	Capital Expenditure Procured (£ millions)	Capital expenditure captured in client's contracts at the point of contract.

- **Contracted CO_2 saving**
    - These are the carbon reductions associated with projects procured through the RE:NEW framework or those obtaining procurement support from the RE:NEW Support Team.
    - "Contracted" means a contract signed between the Client and the organisation(s) who will deliver the CO_2 savings. The supporting work must be in line with the ITT requirements and have been identified by the Client in the agreed Support Plan.
    - The projected CO_2 savings are based on modelling using the following calculation: .

Contracted CO_2 savings = Contracted homes x Carbon Factor (0.53 tCO_2 per home)

Appendix 1: Incentivisation model (excerpt from the RE:NEW Support Team ITT)

- Progress towards KPIs and incentivised KPIs will be based on the contracted carbon savings reported in Client contracts. The actuals will be based on standard calculations for the relevant approach (e.g. ECO, Green Deal etc...).
- CO_2 savings only count if due to be delivered within the RE:NEW Support Team contract period or within 3 years of the project plan agreement (whichever is longest).

- **Capital Expenditure Procured (£ millions)**
  - Capital expenditure is the net value of the contract and must be captured in client's contracts at the point of contract.

1.5. Each incentivised KPI has a 50% weighting.

1.6. Each individual incentivised KPI also has a minimum and target level each quarter. The Contractor needs to be above the minimum level to gain some of the Holdback, with the maximum being achieved if the target is achieved.

1.7. All targets are cumulative over time.

1.8. Each incentivised KPI has an assumed start point indicating where performance is expected to be when the RE:NEW Support Team starts delivery.

1.9. The incentivisation model can be reviewed twice during the 3 year Contract, at 12 months and 24 months from the start of the Contract.