

<b>Item No.</b> 17.	<b>Classification:</b> Open	<b>Date:</b> 25 January 2011	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Gateway 1 - Procurement Strategy Approval Southwark Combined Heat & Power from SELCHP: Additional Services Contract	
<b>Ward(s) or groups affected:</b>		Residents and commercial tenants on five estates in the north east of Southwark	
<b>Cabinet Member:</b>		Councillor Barrie Hargrove, Transport, Environment & Recycling	

## **FOREWORD - COUNCILLOR BARRIE HARGROVE, CABINET MEMBER FOR TRANSPORT, ENVIRONMENT & RECYCLING**

1. This project offers an exciting opportunity for Southwark to take a lead in using renewable energy to provide lower cost heat to residents in almost 3000 homes on Southwark estates. The project would take heat that is currently wasted at the SELCHP energy from waste plant, and deliver it through a heat main to the boilerhouses on these estates. The heat used would replace gas which is currently burned in the boilers, saving an estimated 8,000 tonnes per annum (70%) in CO<sub>2</sub> emissions and two tonnes per annum (90%) in NO<sub>x</sub> emissions.
2. The capital cost of installing the heat mains would be met entirely by the contractor and the council would act as the 'anchor customer', with a commitment to buy heat from the contractor until 2033. The mechanism for fixing the price of the heat will be agreed as part of the procurement negotiations (and will be subject to approval by Cabinet if a contract is to be awarded), but the price will in any case be set at a level lower than the forecast cost of the gas which it replaces.
3. In this way not only will Southwark residents benefit from a secure, renewable energy supply and lower heating costs, but opportunities will be opened up to use significantly more of the renewable energy generated at SELCHP to heat residential and commercial premises in Southwark and other parts of London. This project represents a nationally important development in the provision of renewable decentralised energy in district heating schemes and I am happy to recommend the approval of this report to take it forward.

## **RECOMMENDATION**

4. That Cabinet approve the procurement strategy outlined in this report for the Additional Services Contract for Southwark CHP.

## **BACKGROUND INFORMATION**

5. The council signed a contract with Veolia Environmental Services Southwark Ltd (VESS) in February 2008 to build a new waste facility on the Old Kent Road (OKR) and deliver an integrated waste management contract. Greater London Authority (GLA) and Southwark planning policy dictate that this facility should supply 20% of its energy consumption from renewable sources. Because this was not considered to be feasible at the OKR site itself, a section 106 agreement required VESS to 'offset' the renewable energy requirement as described in paragraph 4 below, using renewable heat generated from waste. The OKR facility will send "solid recovered fuel" (SRF) generated from waste to the South East London Combined Heat and Power (SELCHP) plant.

6. On 16 February 2010 planning permission for the Old Kent Road waste facility was granted, subject to a s106 agreement requiring that (amongst other conditions):
  - “... the Developer shall use reasonable endeavours to enter in to the Procurement Mechanism with the Council within twelve calendar months from the grant of the Planning Permission” and
  - “... the Developer shall use reasonable endeavours to obtain all necessary consents required for carrying out the works necessary for the Off-Site Renewable Energy Infrastructure within 12 months from the completion of the Procurement Mechanism” and
  - “... the Developer shall provide the Off-Site Renewable Energy Infrastructure and Supply within 12 months from the date of receipt of the last consent ...”
  - In the event that VES has not complied with the s106 requirement described above, it is required to pay £520,000 into a Green Energy Fund to satisfy this element of the s106 agreement.
7. The project for which this approval to commence procurement is sought seeks to take the opportunity of the s106 agreement and negotiate a contract for the connection of almost three thousand Southwark Council properties to the SELCHP plant in north Lewisham, providing a more energy efficient method of heating to these dwellings. The properties that are provisionally being considered for inclusion are situated on five Southwark Council estates: Silwood (Southwark part), Tissington, Pedworth, New Place, and possibly Abbeyfield. A detailed study is being undertaken to precisely identify which boilerhouses should be connected to optimise the outcomes from this project.
8. A feasibility study has been published which illustrates the significant benefits that the project would deliver to stakeholders, residents, the Council and wider environment. In February 2005, the Greater London Authority (GLA) commissioned PB Power to produce a report “*SELCHP Community Heating Scheme – Options Appraisal*” which included analysis of the SELCHP scheme waste to energy plant to supply heat energy to a number of estates in Southwark. On the grounds of economic feasibility based on an optimised heat use mapping for connection to heating mains, the five estates were identified in this options appraisal. The conclusions of the report were two-fold:
  - There was a positive Net Present Value over 25 years in comparison with the ‘do minimum’ scenario.
  - The project has the potential to reduce CO<sub>2</sub> emissions by 70% and N<sub>2</sub>O emissions by 90%, contributing to a number of energy and environment related National Indicators.
9. Technical advisors to the Council have reviewed the report and consider that it is a good technical report and it remains valid. The Council will, however, undertake a comprehensive re-evaluation of the technical, financial and commercial aspects of the project as part of the negotiations with VESS.
10. The contract will provide for the provision of heat for space and water heating to properties on a number of Southwark residential estates. The heat will be supplied from the South East London Combined Heat and Power (SELCHP) plant, where renewable energy will be generated from waste, including waste from Southwark. The plant is currently only generating electricity, and not combined heat and electricity as was originally intended. It is estimated that at present some 40MW of heat is wasted. The contract will enable compliance with the Section 106 planning requirement for the waste treatment plant at Old Kent Road.
11. The cost of the heat to be supplied under this contract will be agreed as part of the contract negotiations. However it will be a requirement that the contract will provide heat at a lower cost than would be available by continuing to use the gas boilers that currently heat the estates. In addition the project will result in significant environmental benefits including a

substantial reduction in CO<sub>2</sub> and NOx emissions, enabling the Council to achieve some of its environmental targets.

12. A base option and a supplementary option will be considered:

- Option A, the base option, will provide for the supply of heat to heat exchangers in the existing boilerhouses. On approval of this Gateway report, Officers will start negotiations for the procurement of the services required to deliver Option A.
- Option B, as an addition to Option A, will provide for the contractor to take responsibility for the provision of heat and hot water, potentially with individual heat controllers, into individual properties. Legal advice and QC's opinion has been taken on how to approach the procurement of a contract for Option A (see para. 16), and further legal advice will be required to clarify if Option B could potentially require the Council to undertake an open procurement. Officers will ask VESS to provide indications of the feasibility of Option B at an early stage (by March/April 2011) in the negotiations and will make a recommendation to the Project Board based on the technical feasibility, economic and environmental benefits and the risks of undertaking Option B as compared to Option A.
- The estimated annual cost of contract is set out in the closed report.

### **Summary of the business case/justification for the procurement**

13. The Section 106 agreement associated with the planning permission for the waste treatment facility on the Old Kent Road (known as the waste PFI) requires the developers of the facility to enter into a procurement negotiation for the provision of renewable heat from the SELCHP plant. It should be noted that the contractor for the waste PFI contract is Veolia ES Southwark (VESS) and the heat supply contract would be an 'additional services' contract, also with VESS.
14. There is an opportunity for the Council to negotiate a contract for the supply of heat in which the VESS meets the capital cost of the heat distribution infrastructure and the Council. There would therefore be no capital cost to the Council, except potentially for the cost of connection to the heat exchangers. This cost (estimated as up to £300,000, which would be funded from Decent Homes capital) will be established as part of the contract negotiations. The Council and its tenants will get a supply of heat at a lower cost than is available using the existing gas boilers.
15. In Option B there may be an option for the Council to contract for VESS to also take responsibility for the maintenance, repair and operation of the heat supply infrastructure into the individual properties, which would remove the Council's liability in this area and free up the associated budgets.
16. Officers will pursue the possibility of obtaining EU funding towards the capital costs of this project.

### **Market considerations**

17. The Council will wish to contract with VESS to enable VESS to meet the Section 106 planning obligations that it has, as described in para. 11 above. The SELCHP plant is the sole potential supplier of renewable CHP heat for distribution to the Council's properties in this area. Both of these considerations mean that the Council will be negotiating with a sole supplier, which means that the Council will need to be especially vigilant in ensuring that it, and its leaseholders and tenants, achieve value for money.

### **Proposed procurement route**

18. Queen's Counsel opinion has been obtained which advises that the Council may use the negotiated procedure under regulation 14 of the Public Contracts Regulations 2006 in order to extend the Council's current Waste PFI contract to include additional services as described above as Option A. Further advice will be sought if necessary in relation to the procurement of Option B as described in para. 9 above. It is proposed that the Council agrees Heads of Terms and enters into a negotiation with VESS for this contract as a separate contract for additional services which will sit alongside the Waste PFI contract. At an early stage in the negotiations, the feasibility of option B will be evaluated and decision-making criteria to evaluate the benefits of option B will be developed for the consideration of the Project Board.

### **Approach to negotiations**

19. There are a number of potential options for the approach to negotiations with VESS which are set out in the closed report.
20. The recommended negotiation approach is set out in the closed report.

### **Options for procurement including procurement approach**

21. Paragraph 16 explains the rationale for the selected procurement route to enter into an additional services contract with VESS to provide these services. Advice from Counsel supports the use of the negotiated procedure in respect of option A, and it will be necessary to obtain further legal advice if option B becomes feasible.
22. Within the limitations of the particular procurement route eventually selected the project team will explore options to see if there are opportunities to develop collaborative working with other local authorities or public sector organisations.

### **Identified risks and how they will be managed**

23. The project is being managed through a Project Board (consisting of senior Directors and Officers) and a Project Team with day to day responsibility for managing the project and the procurement. The Project Board reports to Corporate Management Team and to Members. A comprehensive Risk Register is being developed (attached at Appendix 1) and will be reviewed and updated through the life of the project. A named Council Officer will be assigned as the appropriate 'risk owner', and will be required to report on steps being taken to mitigate the risk. The Risk Register will be a live document. At present, key risks identified include the following:

The risk to obtaining value for money when negotiating with a single supplier;

- Limited resources within the Council to successfully run the project;
- Failure or delays in obtaining permissions to carry out the infrastructure works required;
- Potential conflicts with other Council priority projects;
- Uncertainty over the life of the estates to be heated through the project.

## KEY ISSUES FOR CONSIDERATION

### Key /Non Key decisions

24. This procurement is a Key Decision as a result of the value of the contract and because it has a significant impact on a large number of Southwark residents.

### Policy implications

25. This project would be seen as a significant and important project on a national scale in relation to a number of policy objectives. Combined Heat and Power (CHP) is an efficient means of energy generation and use, reducing environmental impacts in particular carbon and nitrogen emissions. In May 2010 Cabinet received a report on CHP in relation to the manifesto pledge to introduce combined heat and power for our heating systems. Other relevant pledges would include those to carry out a green audit of the Council, and to make every home warm, dry and safe.

Recent UK policy (“Strategy for Household Energy Management”) has also recommended policy options for existing public sector buildings to connect to district heating schemes and/or provide “anchor” heat loads from which to develop new district heat networks. Current local and regional planning policy is strongly supportive of district heating as a carbon reduction approach.

The reduction in emissions and the use of renewable heat has the potential to contribute significantly to the Council’s targets under a number of current National Indicators including NI 186 “reduction in carbon emissions in the Local Authority Area”, NI 187 “Tackling fuel poverty” and NI 188 “Adapting to Climate Change”.

### Procurement project plan (Key decisions)

Activity	Comment	Complete by
<b>Forward Plan</b>	2 - 4 months ahead of approval	November 2010
<b>Gateway 1: Procurement strategy for approval report</b>	DCRB (fortnightly) near final report required - allow 4 weeks	09/12/2010
Gateway 1: Procurement strategy for approval report	CCRB (weekly) final report required – allow further 2 weeks	16/12/2010 or 23/12/2010
<b>Gateway 1: Procurement strategy for approval report</b>	CMT	05/01/2011 or 19/01/2011
<b>Gateway 1: Procurement strategy for approval report</b>	Cabinet	08/02/2011
Issue Notice of Intention to leaseholders		TBC
Agree Heads of Terms		March 2011
Application to LVT for dispensation		TBC
Receive detailed proposals		TBC
Evaluate detailed proposals		TBC
Issue Notice of Proposals to leaseholders & tenants		TBC
<b>Gateway 2: Contract award</b>	DCRB	TBC

Activity	Comment	Complete by
<b>Gateway 2:</b> Contract award	CCRB	TBC
<b>Gateway 2:</b> Contract award	Cabinet	TBC
Call-in period	Min 5 days plus x if called in	TBC
Final Clarifications / DD		TBC
<b>Gateway 2:</b> Contract award for approval report	Delegated to Chief Officer	TBC
Contract award		TBC
Alcatel 10 day standstill period	Min 10 days	TBC
Mobilisation	Up to 3 months	TBC
Transitional arrangements	8 weeks	TBC

### **TUPE implications**

26. There are believed to be no TUPE implications arising from this procurement.

### **Development of the tender documentation**

27. The contractual documentation will be developed by the Council's legal and procurement teams, supported by Eversheds as legal advisers to the project.

### **Advertising the contract**

28. Regulation 14 of the Public Contracts Regulations 2006 permits to Council to procure this service as a contract for additional services to the waste PFI contract which does not require advertising.

### **Evaluation**

29. Evaluation of the proposed contract will be undertaken by members of the Project team including representatives from procurement, legal and finance. The Project team will be supported by professional advisers. A recommendation to accept or reject the contract will be made to the Project Board which will in turn make a recommendation to Cabinet to take the decision. At this stage Officers are considering the option to develop a technical model jointly with Veolia, based on the modelling carried out by PB Power for GLA in 2005. This approach would significantly reduce the cost to both sides, and, subject to appropriate due diligence by the Council's own technical advisors, could form the basis of an agreed technical approach with Veolia. The Council will then build its own financial model against which to benchmark the proposal from VESS. Other elements of the evaluation would include consideration of a benchmark or target price of energy, and a mechanism to evaluate options A and B as described above. A comprehensive set of evaluation criteria will be developed and presented to the Project Board for approval prior to undertaking the evaluation process. The evaluation criteria will take account of existing contractual arrangements and provisions necessary for early termination, where required.

### **Community impact statement**

30. This project will contribute to a reduction in energy costs and a reduction in fuel poverty, as well as a greater energy security, and will help to assure warmer homes in the affected properties.

### **Sustainability considerations**

31. The project makes a significant contribution to the sustainability of housing and energy use in Southwark. Under the PFI contract 28,000 tonnes per annum of waste from Southwark will be sent to the SELCHP energy plant. Heat energy that is currently wasted at the plant will be used to provide heat and hot water back into Southwark properties.

### **Economic considerations**

32. The project will be designed to have a positive economic impact for Southwark and its leaseholders and tenants. First, heat energy that is currently wasted will be used productively. Second, there may be 'spin off' opportunities to use heat energy based on Southwark as an 'anchor customer' for a major heat load.

### **Social considerations**

33. The project will contribute to a reduction in fuel poverty in an area that suffers from deprivation.

### **Environmental considerations**

34. The project will have significant environmental benefits as described above.

### **Plans for the monitoring and management of the contract**

35. Plans will be developed for the monitoring and management of the contract during the construction phase so that management processes are in place when the project becomes operational. Technical transition and enabling works will be managed by Estates and Property Management. It is anticipated that a Project Manager will be appointed to oversee the build phase of the project, reporting to the Project Board on a regular basis. Once operational, it is anticipated that the heat supply contract will be managed by the energy team.

### **Staffing/procurement implications**

36. There are staff resource implications which are noted, along with mitigating measures, in the Board's Project Plan and Risk Register. More broadly, the Project Board, chaired by the Strategic Director for Environment and Housing, is responsible for taking the decisions which manage the procurement process. A Project Team (including Officers from Sustainable Services, Finance, Legal, Housing, Planning, Procurement and other staff as well as contracted in technical specialists and external professionals as required) will manage the project on a day-to-day basis. A Project Manager leads the Project Team and reports to the Project Board. Cabinet will be presented with a Gateway 2 report for approval prior to the award of any contract.

### **Financial implications**

37. A detailed financial model will be developed as part of the project management and procurement process. It is anticipated that there will be no capital costs to the Council and there may be benefits as described under option B which may release budgets currently provided for maintenance of heat supply infrastructure. It is expected that the contractor will recover the cost of its investment through the income generated from the sale of heat, and it is likely that the Council will need to commit to a certain level of heat demand. This commitment will be based on a view taken in recognition of the Council's Housing Investment Plan. Officers will pursue opportunities for the project to benefit from appropriate EU funding which may reduce the capital cost of the project to the contractor.

### **Legal implications**

38. As described above in paragraph 16.

## **Consultation**

39. Statutory consultation under the Landlord and Tenant Act 1985 would not be possible in this case so the Council would apply to the Leasehold Valuation Tribunal for a complete dispensation of its obligations under section 20, with the proviso that an alternative consultation process with leaseholders would be undertaken. It is anticipated that there will be no insurmountable objections provided that the cost of energy to tenants and leaseholders can be demonstrated to be below the alternative cost (of gas heating currently provided). Also see comments below from the Head of Home Ownership Unit.
40. A communications plan forms an important part of the Project Plan. There will be extensive consultation with a wide range of stakeholders including private residents and tenant and home owner councils, and commercial occupiers of the estates, third parties such as TfL, LDA and Mayor's Office, GLA, Defra, DECC, Southwark housing associations and Lewisham Council.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Communities, Law & Governance**

41. This report seeks the Cabinet's approval to the procurement strategy for additional services for the Southwark CHP. Due to the value of the additional services, which if option B is selected is as set out in the closed version of this report this is a Strategic procurement, the decision of which is reserved to the Cabinet.
42. The nature and value of these services are such that they are subject to the full application of the EU procurement Regulations. The report however explains the preferred option to entering into an additional services contract with VESS to provide these services. Regulation 14 of the Public Contract Regulations 2006 permits the council to negotiate with a current provider to provide additional services in certain circumstances. As noted in paragraph 16, the council has sought external legal advice from Leading Counsel whose advice supports the use of the negotiated procedure. Such advice is only in respect of option A, and therefore further legal advice will be needed if option B becomes feasible.

### **Finance Director**

43. The Finance Director acknowledges the procurement strategy as detailed in this report. Successful procurement and delivery of the supply could provide a VfM heating solution for the council and would furthermore discharge Veolia's renewables obligation under the February 2010 s.106 agreement for the Waste PFI on the Old Kent Road site, which the council deems a preferable alternative to Veolia's paying a £0.52m sum into a green energy fund under this agreement.

The mechanism for letting this additional heat services contract via a negotiated route has been outlined by Queen's Counsel, indicating that the risk of procurement challenge and thus abortive procurement or justification costs could be mitigated on the basis that the advice is followed and further sought as required. As part of this process, proactive development and agreement of Heads of Terms between the council and VESS will enable the council to stipulate its parameters and so form an early view on the project's viability. This reduces the potential for resource wastage on a protracted and potentially unfruitful negotiation.

The report details two supply options at paragraph 12. It is anticipated that in neither case will up-front capital costs of the supply be met by the council and given the current financial climate the council would wish to maintain this position as negotiations progress, subject to reviews of viability. The early stages of the negotiations will need to include financial and



technical analyses of the options to assess commercial viability and officers may explore opportunities for EU funding as part of this.

There are several key risk areas shown which the Finance Director notes should be areas of focus for the project board and team. Whilst adhering to expert advice on risk transfer and profile, the project team with its supporting advisors will need to mitigate such as far as is possible by ensuring that council exposure is appropriately limited and sufficient risk borne by the supplier. Before agreeing any service solution the council must ensure that it is not unduly exposed to risks that could give rise to among others, detrimental financial, political or reputational consequences if those risks materialise.

A project budget of £0.50m has been identified and is anticipated to be sufficient to meet the needs of the project up to implementation. This budget will be subject to regular monitoring and review, and appropriate actions will be taken by the project manager and budget holder to prevent overspend.

### **Head of Procurement**

44. The report explains the specific and unique circumstances of this procurement. The SELCHP facility is the only potential supplier of CHP heat to the Council properties in the area and it is therefore proposed to enter into single supplier negotiations with VESS for the services required to deliver Option A, the supply of heat to heat exchangers in the existing boiler houses. The report confirms that Counsel's advice supports the use of the negotiated procedure in these circumstances. However further legal advice will be needed if Option B, where the contractor would provide heat and hot water into individual properties appears feasible.

A dedicated project manager reporting to a high level project board has been engaged to coordinate the delivery of this procurement. An internal project team supported by external advisers is in place and appropriate governance arrangements have been drawn up.

The report confirms the commitment to ensuring that the necessary negotiation and evaluation tools are in place to be able to benchmark proposals from VESS and to achieve value for money.

### **Head of Home Ownership Unit**

45. Statutory consultation under section 20 of the Landlord and Tenant Act 1985 (as amended) would normally be required before entering into a long term agreement which would cost any leaseholder more than £100 per annum in service charge. However, due to the nature of this contract, and the proposal to enter into contract with Veolia rather than tendering out the contract, it will not be possible to comply with the majority of the section 20 regulations. The Council would need to apply to the Leasehold Valuation Tribunal for a complete dispensation of section 20, with the proviso that an alternative consultation process with leaseholders would be undertaken. If no section 20 is carried out and dispensation is not obtained, then the Council would be limited to charging a maximum of £100 per leaseholder per annum.

Should the Council decide to follow option A, then the dispensation from section 20 is all that would be required, as the Council would still be responsible for providing a communal heating service, but would simply be procuring a different fuel supply.

If the Council prefers to follow option B then this will be a more complicated process with regard to leaseholders, as the Council may not then be providing a communal service, and so the heating costs may no longer be deemed to be service chargeable. The Head of Home Ownership and Tenant Management Initiatives would recommend that if option B is preferred, then the Council includes the heat controllers within each dwelling and applies to vary all the leases of the home owners concerned to remove the requirement to supply heating. Should

this option be recommended then further investigation on the outcome for home owners would be required.

If the Council retains control of the service it is imperative that the costs are properly recorded and attributed to the relevant cost centres so they can be easily identified for the construction of service charges.

## Head of Property

46. The overall output of this project is consistent with the strategic aims of Housing Management to tackle climate change and fuel poverty. This project will assist Southwark Council's commitment to sustain and improve its community heating installations and reduce carbon emissions. Concise agreement on pricing index will need to be agreed with the provider to ensure that our strategic aims are met and the maximum benefits are realised by our residents.

Option B provides the most advantageous opportunity to Housing Management, as this route provides the financial resource for secondary infrastructural costs up to the property boundaries. This also reduces the risk of possible financial penalties for major outages. Such outage events will result in a reduction of the energy physically taken from SELCHP, impacting on the overall financial model assumptions and potentially carrying abortive costs and penalties for the Council.

This option will also shift this risk away from the Council and if the project's revenue potential can encompass the capital requirements for maintaining the pipe work infrastructure, including major renewals where necessary, then it is the most attractive to Housing Management. It also simplifies the day-to-day repairs and maintenance contracting requirements if a single entity is responsible for providing and distributing the services from the point of generation to consumption.

In addition, the likely long term future of the estates included in the project is unknown and no guarantees can be given for the full term of the concession period. However, Housing Management is fully aware of the provider's need to have surety over heating loads for a workable commercial model and we would advocate an agreement on a heat load basis. This approach would be more flexible to manage any potential future stock profile changes.

Housing Management would encourage agreement on the service at the end of the concession period. In particular it would welcome the inclusion of a sinking fund mechanism for investment in the plant and infrastructure during the concession to ensure that the asset has an on-going lifespan at the end of the concession period.

## BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Southwark Combined Heat & Power Project, Project Initiation Document	Environment & Housing	David Gee 020 7525 0059
SELCHP Community Heating Scheme – Options Appraisal	Environment & Housing	David Gee 020 7525 0059

## APPENDICES

Appendix number	Title of appendix
1	Risk Register

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Barrie Hargrove, Cabinet Member for Transport, Environment & Recycling		
<b>Lead Officer</b>	Gill Davies, Strategic director, environment & housing		
<b>Report Author</b>	David Gee, Programme Manager		
<b>Version</b>	Final		
<b>Dated</b>	12 January 2011		
<b>Key Decision?</b>	Yes	<b>If yes, date appeared on forward plan</b>	1 December 2010
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>			
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>	
Strategic Director of Communities, Law & Governance	Yes	Yes	
Finance Director	Yes	Yes	
Head of Procurement	Yes	Yes	
Head of HOU	Yes	Yes	
Head of Property	Yes	Yes	
<b>Contract Review Boards</b>			
Departmental Contracts Review Board	Yes	Included in report	
Corporate Contracts Review Board	Yes	Included in report	
<b>Cabinet Member</b>	Yes	Yes	
<b>Date final report sent to Constitutional Team</b>			13 January 2011

# Appendix 1 – Risk Register

Current Score

Risk ref.	Risk Description:	Risk Owner (proposed)	Risk category	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)	RISK SCORE	Risk controls (mitigation)	Control Owner	Control Deadline
25	Monopoly of providers on the delivery side	David Gee	Economic	6	8	75	Aim for transparency of pricing. Establish shadow pricing model. Establish pricing mechanism indexed to alternative energy costs.		
17	TfL and Network Rail may fail to provide the agreement for pipes to cross their land, and in addition consent is not passed for required road works	DG/BDA?	Legal & regulatory	6	5	51	Ensure that Veolia are engaged with TfL and network rail. Require consent/planning milestones and monitoring.		
26	Contractor goes into liquidation at a key stage in the project resulting in significant project delays	Alex Vaughan	Economic	8	2	44	Monitor Veolia and subsidiary financial reports. Parent company guarantees.		
6	Failure to involve all the internal and external stakeholders in the project resulting in the project failing to achieve best results (e.g. Highways, Decent Homes Unit, LDA)	David Gee	Staffing & Culture	6	4	42	Develop and implement stakeholder engagement plan.		
1	Lack of capacity and expertise in the Council to satisfy the resource and skill requirements to successfully run the project	Gill Davies	Staffing & Culture	5	5	41	Monitor and manage staffing needs and availability. Use of temporary/contract staff if appropriate.		
2	Loss of key staff, including project managers and other key managers resulting in the projects failing or suffering serious delays	Gill Davies	Staffing & Culture	5	5	41	Monitor and manage staffing needs and availability. Use of temporary/contract staff if appropriate.		
4	Potential conflict of interest between this project and other projects underway in the Council	Gill Davies	Staffing & Culture	4	6	40	Ensure that the project has a high profile in the Council and all departments are aware of interfaces.		
21	Lack of understanding of what the Council is entering into results in hidden financial implications	Alex Vaughan	Financial	7	2	35	Full engagement of finance team in the project. Develop models and check assumptions. Due diligence.		
18	Challenge to the procurement process as a result of the variations being made	Karen Moore	Legal & regulatory	6	3	34	Take and act on legal advice. Monitor negotiations and procurement against advice and plan.		
7	Saturation within the Council of significant projects and related activities resulting in lack of resource or funding for external resource, to support this project	Gill Davies	Staffing & Culture	5	4	33	Ensure that the project has a high profile in the Council and all departments are aware of interfaces.		
27	Loss of control of the boiler operation in the SELCHP project may result in the Council being unable to step in if there is a problem	Chris Baxter	Reputational	4	5	32	Ensure that technical negotiations include appropriate provision for back-up and that contractual arrangements give Council step in rights if necessary.		
31	Potential incorrect unit costs being set for what the Council buys resulting in financial loss to the Council	Alex Vaughan	Financial	5	3	26	Develop financial models and check assumptions.		
37	Implementation of option B including full controls would result in reduction in heat demand, changing the financial model	Alex Vaughan	Financial	5	3	26	Develop financial model for option B and test scenarios.		
12	Council have little of control over tariffs and if these rise and impact on local users, it will cause significant reputational damage to the Council	Alex Vaughan	Reputational	4	4	25	Ensure that contract specifies pricing mechanism that the Council is comfortable with.		
14	Potential failure to achieve the targets as defined by this project	David Gee	Operational	4	4	25	Clear definition of project, deliverables, acceptance criteria and negotiation criteria.		
19	Potential changes in electricity and heat regulations results in opportunities for the council	DG/BDA?	Legal & regulatory	4	4	25	Monitor developments and check against contract provisions.		
28	The Heads of Term document is not acceptable to Veolia	Karen Moore	Legal & regulatory	4	4	25	Establish agreed 'must haves', discuss and agree HoTs with Veolia. Both parties to sign agreed HoTs before proceeding.		
8	Failure of project to manage political aspirations at an acceptable level resulting in perceived or actual failure of project to achieve its objectives	David Gee	Reputational	3	5	24	Regular reporting and briefings for key senior Officers and Members.		
5	Too few consultants able to provide advice and support in the technical field resulting in reliance on a small number of consultants	David Gee	Staffing & Culture	5	2	20	Identify a number of competent and qualified technical consultants.		
22	Lack of control of the commercial element of contracts being entered into resulting in not achieving best financial value from the project	Alex Vaughan	Financial	5	2	20	Full engagement of finance team in the project. Develop models and check assumptions. Due diligence.		
23	The project is not affordable based on the current and potential future budget constraints and the timing of other major activities	Alex Vaughan	Financial	5	2	20	Develop financial models and check assumptions on regular basis and at all stages.		
34	Relationship with Veolia breaks down and the contract is terminated	Gill Davies	Operational	5	2	20	Regular contact with Veolia at all levels.		
36	Technical solution cannot be delivered at any number of estates (e.g. incompatible temperature/ pressures etc)	Chris Baxter	Operational	5	2	20	Develop clear definition of technical requirement for connection, ensure technical sign-off on contract.		
3	GLA and LDA exerting too much influence on the project resulting in the project moving towards GLA/ LDA's objectives rather than the Council's objectives	David Gee	Staffing & Culture	4	3	19	Maintain focus on Council's requirements and on deliverability of the project.		
15	Key project milestones may fall within the period of the 2014 elections resulting in delays to project	David Gee	Operational	4	3	19	Project plan to take account of elections and develop contingency plans if potential delays become more likely.		
16	Failure to link up to other Council projects and achieve efficiencies (e.g. major road works ongoing)	Chris Baxter	Legal & regulatory	4	3	19	Develop detailed implementation plan and liaise with appropriate statutory and other bodies.		
32	Unable to achieve LVT dispensation therefore cannot charge leaseholders resulting in financial loss to Council	David Lewis	Financial	4	3	19	Prepare detailed case for LVT dispensation.		
33	The commodity that the project is tied to increases in price and is not the best commodity option in the future and impacts on the Council's reputation and financially	Alex Vaughan	Economic	4	3	19	Develop and scenario test a range of pricing models.		
10	Alternative options prove to provide better value to residents and the project is no longer viable	David Gee	Reputational	3	4	18	Reassess financial models and viability of project at each key stage.		
38	In option A, there may be financial risk to the Council if the secondary heat network fails and there are penalties for the reduced heat demand.	Alex Vaughan	Financial	2	5	17	Test contract and any penalties imposed against a number of scenarios.		
13	Politicians not buying in to the project resulting in significant changes to the project required	David Gee	Operational	4	2	14	Regular reporting and briefings for key senior Officers and Members.		
20	Different priorities and other projects in housing division makes it difficult for housing to find the required resource and support for this project	Chris Baxter	Legal & regulatory	4	2	14	Maintain awareness of project and resource requirements within Housing.		
29	Suppliers favour new customers in the future delivery of the service which adversely affects the service to the Council (including if there are disruptions to the power supply)	Karen Moore	Legal & regulatory	4	2	14	Ensure that contract secures and prioritises Southwark's heat requirement.		
11	The project is over-promised and can't meet the delivery promises resulting in perceived risk of failure	David Gee	Reputational	3	3	13	Clear definition of project, deliverables, acceptance criteria and negotiation criteria.		
39	If the SELCHP plant or heat mains fails, or requires maintenance, a backup heat source is necessary.	Chris Baxter	Operational	3	3	13	Monitor technical and contractual provision for backup heat supply.		
24	An economic up-turn results in contractors moving to private sector projects and leaving the Council's project without sufficient interest	David Gee	Economic	4	1	10	Contract to include implementation timeline and penalties for failure to meet agreed deadlines.		
9	Calculations are incorrect on the potential environmental impact assessment resulting in the significantly reduced environmental benefits	DG/BDA?	Reputational	3	2	9	Test and verify environmental impact assessment.		
35	More profitable market is found for SRF, and it is not sent to SELCHP	Annie Baker	Operational	3	2	9	Check contractual provisions.		
30	Further connections are unattractive for new development post 2016 due to complications (e.g. Canada Water)	Karen Moore	Legal & regulatory	1	2	2	Liaison with strategic planners and developers.		