

## CABINET

15 October 2019

<b>Title:</b> Energy Company Obligation (ECO3) Programme	
<b>Report of the Cabinet Member for Regeneration and Social Housing</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Strategic Leadership Director:</b> Graeme Cooke, Director of Inclusive Growth	
<p><b>Summary:</b></p> <p>ECO3 is the latest milestone in the development of the Energy Company Obligation which was established in April 2013 and requires energy suppliers with a customer base of 200,000 or more to fully or partially fund the installation of various energy efficiency measures such as heating and insulation works for qualifying homeowners, social tenants and private renters.</p> <p>Local authorities have traditionally engaged with suppliers to collaborate and promote schemes on estates or borough-wide programmes. Therefore, ECO3 presents an opportunity for the Council to support Barking and Dagenham residents in enjoying financial savings and thermal comfort from having energy efficiency measures installed in their properties.</p> <p>To optimise the delivery of measures within the borough, the Council conducted an expression of interest exercise during the summer of 2019 and following the evaluation of submissions from several suppliers, Eon was nominated as preferred partner to assist in the development of a two-year borough-wide branded programme of retrofitting across all tenures, for households which qualify.</p> <p>Related, but not funded by the general Eon proposal, is an opportunity to deliver a deep retrofit pilot in appropriate Council-owned dwellings to coincide with the 2021 centenary anniversary of the building of the Becontree Estate. A £2.6m project funded by ECO3 Innovation Fund and HRA Capital Programme contributions will allow us to trial the Energiesprong model of deep retrofit which significantly enhances the thermal comfort of existing cold, drafty dwellings, while cutting carbon emissions, cutting fuel bills and switching households to clean energy generation.</p> <p>It aims to test the business case for rolling out this kind of retrofit nationally, on-scale and in volume, to drive down costs as well as turning existing energy inefficient properties with an EPC rating of D or lower into near net-zero energy, A-rated highly efficient homes of the future.</p>	

## **Recommendation(s)**

The Cabinet is recommended to:

- (i) Approve the appointment of Eon as preferred partner to develop a two-year programme of general retrofitting works for qualifying households across all tenures, and in particular dove-tailing the delivery of the scheme with the existing HRA Capital Programme;
- (ii) Approve the appointment of Energiesprong as technical advisers in the procurement and delivery of a deep retrofitting pilot on the Becontree Estate; and
- (iii) Delegate authority to the Director of Inclusive Growth, in consultation with the Cabinet Member for Regeneration and Social Housing and the Director of Law and Governance and the Director of My Place, to enter into the contracts and all other necessary or ancillary agreements set out in this report.

## **Reason(s)**

The proposals contribute to the Council's vision and priorities set out in the Corporate Plan to 'develop place-based partnerships'; 'shape great places and strong communities through regeneration', 'enable greater independence' and 'protect the most vulnerable.

## **1. Introduction and Background**

- 1.1 Affordable warmth, clean growth and decarbonisation have become key areas of Government policy and will intensify as homes, businesses, public sector organisations and transport infrastructure are steered towards meeting the new 2050 net carbon neutral targets. Legislation passed in June 2019 committed the UK's transition to a low-carbon future and the Government has introduced new energy efficiency interventions in the private rented sector; committed to bringing all properties up to an EPC rating of C by 2035 and demanded that energy suppliers deliver £3.6bn of retrofitting and energy efficiency works to housing stock between 2018/2023.
- 1.2 These opportunities allow the Council to build upon existing projects to deliver the ambition for Barking and Dagenham to be the 'green capital of the capital' and brand a scheme which delivers energy efficiency installations. Over the last decade Barking and Dagenham has leveraged in approximately £15m through previous energy efficiency programmes such as CERT, CESP and ECO1 and ECO2t funding to provide heating and insulation works to more than 10,000 homes across all tenures.
- 1.3 The Electricity and Gas (Energy Company Obligation) Order 2018 (commonly known as ECO3) is the latest milestone in the development of the suppliers' energy efficiency obligations. Established in April 2013 the obligation requires energy suppliers with a customer base of 200,000 or more to fund the installation of energy efficiency measures. The scheme has been collapsed into one core delivery target which provides various heating, insulation and where viable 'innovation' measures which apply to qualifying homeowners, social tenants and private renters.

- 1.4 The suppliers are set overall targets to meet with each set of measures and installs batched into quotas. Failure to meet them by 2023 will trigger a fine from the Office of Gas and Energy Markets (Ofgem), which oversees the administration of the programme.
- 1.5 Local authorities have traditionally engaged with suppliers, managing agents and installers to collaborate and promote schemes on estates or borough-wide programmes. Therefore, ECO3 provides an opportunity for the Council to support Barking and Dagenham residents in enjoying financial savings and thermal comfort from having energy saving measures installed in their properties.

## **2. Proposal and Issues**

- 2.1 To support the transition of Barking and Dagenham to a low carbon, clean growth borough, the Council is keen to maximise all opportunities which enable it to decarbonise domestic properties, improve the thermal performance of stock and provide affordable warmth. The ECO3 regulations allows for us to do this for qualifying households under a badged-up programme which could potentially have an insulation, heating and retrofitting offer for thousands of households across the borough. Roll-out of certain measures, such as cavity wall insulation on social stock could begin as early as November 2019, with solid wall properties and private sector properties beginning to receive installs from March 2020 onwards.
- 2.2 To capitalise on this approach and timescale, the Council undertook an expression of interest exercise during July 2019 inviting ECO3-mandated energy suppliers to submit high-level proposals which could be developed into a borough-wide branded, across tenure scheme to deliver a retrofitting programme. It was stipulated that where regulations allow for measures to be fully-funded, the supplier should do so, as well as manage the programme, report back to Ofgem, lead on customer engagement, appoint installation contractors and be responsible for the delivery of the works (and associated liabilities). Where possible, and in accordance with our corporate expectations on social value, we expect 25% of works to be reserved for suitable, industry accredited (PAS2030:2017) local installers appointed under their procurement frameworks and local apprenticeships will also be encouraged. The Council would retain oversight of the programme, monitor delivery and support soft marketing.
- 2.3 A panel, consisting of officers from My Place, Inclusive Growth and Enforcement Services judged the submissions accordingly and following aggregated scoring, nominated Eon as preferred partner to undertake further data analysis over the autumn to target qualifying households and deliver installs across the next 24-months as part of a borough-wide offer.
- 2.4 Separate from the main Eon proposal but also funded through another avenue of ECO3 called the Innovation Fund, there is an opportunity to deliver a deep retrofit pilot in appropriate Council-owned dwellings, based on the progressive and cutting-edge Energiesprong model, to coincide with the 2021 centenary anniversary of the building of the Becontree Estate. The Cabinet approved HRA Capital Programme 2019/20 committed £1.5m to energy efficiency works for domestic stock and a unique opportunity to match-fund the scheme with an additional Innovation Fund contribution of £1.1m from British Gas as ECO sponsor has arisen.

## 2.5 **ECO3 - Works to private rented and owner-occupied stock**

The majority of ECO3 works will be directed at private sector housing rather than our own stock, with the Council proactively seen to be engaged in the retrofitting of owner-occupied and privately rented homes of those in receipt of qualifying benefits. Promotion will be borough-wide but for the initial phase this work will be targeted at the Becontree Estate, so that where possible installs will be completed by the time of the estate's centenary anniversary. Eon's adopted neighbourhood approach to the delivery of works helps concentrate contractors in one area so that installs can be carried out on scale and thereby quickly.

An initial desktop analysis of energy performance certificates has identified 3,740 PRS properties which may be eligible for heating and insulation works. On the Becontree Estate alone, Eon estimates that 2,833 properties may qualify. This data will be cross-referenced with properties registered under the Council's Mandatory Licensing Scheme, contacting all landlords about ECO3 opportunities and ensuring they meet the requirements of the Minimum Energy Efficiency Regulations 2015.

Estimating the number of qualifying owner-occupied properties will require further analysis, although at least 10,000 are known to have solid walls and are likely to be paying an additional £435 a year in heating costs because of a lack of insulation. It is also difficult to estimate likely take-up in the owner-occupied sector and a majority of households will be identified through a mix of self-generation and lead generation activities such as digital channels, inserts into Council publications, communications and event planning, marketing drops in fuel poor targeted areas and referrals through the voluntary sector and support networks like SHINE.

In addition, ECO3 builds on a component named as Flexible Eligibility (LA Flex) which allows a local authority to open eligibility to residents who are private tenants and owner-occupiers but not in receipt of benefit. As per regulations, the Council published its original Statement of Intent on LA Flex in late 2017 which states that where resources allow, it would identify known fuel poor households (either through mapping, Community Solutions and SHINE referrals); or residents subject to a health condition which is considered by the National Institute of Clinical Excellence (NICE) to lead to cold winter illness or death; or households living in F and G rated properties. The Council will not be a guarantor of works delivered to private properties but will act as conduit, providing referral and signing off a Declaration of Eligibility. It would be up to the household to consent to the measures.

Using the borough's Data Explorer, recent Department of Business, Energy and Industrial Strategy (BEIS) fuel poverty mapping, the scheme will target pockets with suspected high levels of fuel poor households to generate leads. This will also tie-in with proposals being made in a bid to the National Grid's Warmer Homes Fund for an enhanced fuel poverty referral pilot as well as allowing the Council to promote materials encouraging take-up of Beam Energy low-cost energy tariffs.

The Council has also asked Eon to develop a retrofitting offer for those who are not on benefits and help to stimulate interest from the able-to-pay market and will work with not-for-profit organisation, Retrofit Works – who are funded by the GLA and the BEIS – to help cultivate an affordable, attractive proposition for households which would not otherwise qualify for energy efficiency works but still want to cut carbon emissions and save on their fuel bills.

As with LA Flex, works to private sector properties, while unquantifiable at the moment, will be agreed between the energy supplier and customer. The only role the Council will play in this tenure is one of light touch marketing and general oversight of number and types of installs, costs and expected reductions in carbon emissions. The Council will have no direct relationship between the parties to the transaction.

## 2.6 **ECO3: Works to Social Housing**

While there is no condition of being in receipt of a qualifying benefit, measures can only be targeted at properties with an energy rating of E, F and G and extends to D where considered as part of an 'innovation scheme' signed-off by Ofgem. It is widely presumed that local authorities should be investing in their stock through Housing Revenue Account financing. However, where there is stock which requires virgin loft and cavity wall insulation, properties will qualify for free measures. There is also funding for First Time Central Heating (FTCH) works but only in the circumstances where we are removing broken or inefficient electric storages heating like Economy 7 systems. The Council would be expected to contribute to top-up levels of loft insulation, solid-wall measures and for replacement heating systems and this would be attributed to a relevant investment line within the HRA Capital Programme over the preceding 24 months. A potential Warmer Homes Fund bid in October may also bring in additional capital to support this work.

Based on 2015 data, the Council identified 1,267 Council owned properties which we suspect are rated E, F and G under the energy rating system and thereby potentially eligible for works, mainly for free insulation but where applicable for the removal of inefficient electric storage heating systems too. Eon's initial desktop survey suggests that the number of properties across Barking and Dagenham which could qualify for cavity wall insulation may have extended to 2,752 properties and 3,859 which require loft insulation.

Again, because of the traditional nature of the stock and the Becontree Estate centenary, the initial phase of works will be targeted at the Becontree Estate, where an estimated 451 properties could benefit from cavity wall and loft insulation works over the winter 2019/2020 and 367 properties for solid wall insulation in 2020/2021. The roll-out of installs will need to marry-up with the delivery of other Council stock improvements outlined in the HRA Capital Programme, so that the disruption to tenants is at a minimal. A majority of the works, however, are expected to be cavity wall measures which are non-intrusive and are completed externally.

Some measures affecting social stock will now require a contribution from the Council depending on the type of install (this would normally be solid wall and central heating measures). As explained above the number of Council properties affected and the type of works likely to be committed are limited. The expected cost to Council stock is expected to fall well below the £4.551m threshold, which would otherwise trigger a legal requirement to competitively tender the contract via the Official Journal of the European Union (OJEU).

## 2.7 **Energiesprong Deep Retrofit Pilot**

The ECO3 Innovation Fund provides match-funding towards energy efficiency projects which require testing at scale in a live environment or are an improved

material that can demonstrate greater energy efficiency performance, or an improved installation technique.

The Energiesprong model of deep retrofitting to old and new-build housing fits the criteria. It offers social landlords a product which significantly enhances the thermal comfort of existing cold, drafty homes, while cutting carbon emissions, cutting fuel bills and switching households to clean energy generation. It aims to test the business case for rolling out this kind of retrofit nationally and as with any new and revolutionary product, it requires scale and industrialisation to force down the cost of production, potentially becoming cost neutral and ensuring this modern method of construction becomes the norm for retrofitting homes rather than a one-off.

This ties-in with the Council's ambition for a demonstration project which decarbonises the existing housing estates of the future and can be tested and trialled on the Becontree Estate in time for its centenary.

Subject to Ofgem approval we propose working with not-for-profit Energiesprong and accessing ECO3 Innovation match-funding of £1.1m from British Gas, to deliver a £2.6m project, adopting an innovative model trialled in Holland and in a handful of places in the UK. The pilot aims to turn existing energy inefficient properties with an EPC rating of D or lower into near net-zero energy, highly efficient homes with energy ratings of A, with a suite of 30-year guarantees.

The retrofit is expected to cost around £80,000 for each of the 30 properties and Energiesprong are seeking a contribution from LBBD for each, which is currently budgeted for within the HRA Capital Programme at £1.5m. If the pilot is successful, we may move to a second tranche of properties funded through a bid to BEIS and matched by a further contribution from the capital programme in 2020/21, should members decide.

Under this model installations are considered as permitted development, thereby negating the need to seek planning permission and will deliver:

- An 80% improvement to the thermal comfort of the building;
- An energy efficient, air-tight, non-flammable, fire-compliant insulated cassette manufactured off-site, which will be applied to the facade of the house;
- A new roof covering with solar panel array; and
- Low carbon technologies such as heat pumps, battery storage, energy module and electric vehicle charging points.

This can be achieved with minimal intrusion to the property, without decanting tenants and over a period of about 15 days because of the off-site production

This model provides numerous benefits. For the tenant, energy bills should significantly fall as the improvements allow for the property to generate and use its own energy, backed up to a residual supply from the grid where the tenant's usage is beyond what can be produced on-site. According to Ofgem the average 3-bed household dual fuel bill is estimated this year to be around £1,450, currently costing our tenants up to £120 per month. Under the Energiesprong model, in lieu of the significant drop in energy payments and improved desirable home, the tenants

would pay the Council a de facto service charge of around £25-£30 a month which carries with it a set of guarantees.

The comfort plan is underwritten by the installers, which ensure that all the guarantees are adhered to and will be liable to the Council and tenant for any repairs, defects or breaches caused by the install over the 30-year period:

- Guaranteed maintenance and energy costs;
- Air quality above Part F of the building regulations;
- A temperature of 18-21C in the bedrooms and living rooms respectively; and
- Guarantees on space heating, electric plug load and daily hot water which will be monitored through smart meters and sensors.

There are desirable outcomes for the Council too. The retrofits will ensure that properties have exceeded the EPC target rating of C well before 2035 and the array of low carbon heat technologies proposed could through Renewable Heat Incentive (RHI) net the HRA £150,000 over twenty years for the suite of properties.

The Council could also save an estimated £25,000-£30,000 per property over the lifecycle of the asset in repair costs associated with new roofing, windows, doors and heating systems as well as receiving the income from tenant's comfort plan.

Energiesprong has carried out an initial assessment of potential stock on the Becontree Estate based on visibility of properties, construction archetypes, energy ratings of D or lower and batches of terraced or end of terrace dwellings where installs can be delivered on scale. There are about 60 suitable properties in the pilot from which 30 will be selected following further survey work and a robust tenant engagement strategy and process to ensure those households participating are fully aligned, understand the financial implications and given appropriate consents.

In summary, the pilot not only looks to save residents money and make their homes warmer, more comfortable dwellings to reside in, but to decarbonise our stock contributing to a fall in CO2 emissions, reduce general maintenance and repair costs to the Council and raise the EPC levels beyond Government requirements. It also seeks to stimulate supply chains and in the long term industrialise higher levels of off-site production. Falling costs in this method of construction should allow for this innovation to become the norm for cost-effective retrofitting. Based on the Dutch model, once the supply chain matures and has volume, the price per property should fall from £80,000 to £45,000 meaning the case could become almost cost neutral for the Council through the savings gained from reduced repairs and maintenance and income generated from the comfort plan and RHI.

Finally, driving up the volume and scale is the key to industrialised production and Energiesprong is already working on new pilots on different construction archetypes in two other London boroughs. Underlining our commitment to social value, Barking and Dagenham has had discussions with Energiesprong about a long-term commitment from installers for a new production hub for London, Eastern and South East operations located in our borough and supporting initiatives that recruit and train local residents in this method of construction.

### **3. Options Appraisal**

- 3.1 Failing to engage with ECO3 is not an option and will be a key plank in the delivery of the Leader's ambitions for greener, clean growth borough as well as contributing to the 2050 carbon neutral targets.
- 3.2 The Council could allow energy suppliers and installers to deliver measures in their own right, with no assistance and engagement from the local authority. Energy suppliers are the fund-holders and either use in-house installers to carry out the works or distribute funding to managing agents, which bid to deliver a portion of the supplier's quotas under a delivery contract. However, we would lose sight as to what is actually being delivered on the ground and be unaware as to whether Barking & Dagenham was accessing its fair share of ECO-funded installations. We would also lose influence as to whether local supply chains are appointed to carry-out works and not access any free of match-funding for social stock.
- 3.3 Equally, working with industry partners and developing creative bids is the only credible way in which to unlock substantial investment and detailed technical and procurement advice for housing and affordable warmth solutions of the future.

### **4. Consultation**

- 4.1 As part of the drive towards transitioning Barking and Dagenham to a low carbon, clean growth borough, there has been significant discussion regarding the opportunities of ECO3 and Energiesprong across the Council, with regular input from colleagues in My Place, Be First, Enforcement, Procurement, Participation and Policy and Legal Services. In particular a number of those services have been involved in the data cleansing, tender processes and planning next steps which have culminated in this paper. Programme detail is considered in depth through the Energy Projects Capital Programme Group and updates provided to the Capital Assets Board, the Cabinet Member for Housing and the Leader.
- 4.2 Should Eon be appointed as preferred partner to lead on ECO3 then we shall enlist the support of our resident engagement manager and senior communications staff in the Policy and Participation Team, devising an appropriate engagement strategy which seeks to provide an offer to all qualifying and able-to-pay households who are interested in heating and insulation measures promoted by the Council under a badged-up scheme.
- 4.3 This will include supporting and informing qualifying of the benefits and potential savings they could enjoy from installations and ensuring that where possible the works dovetail with the delivery of the Capital Programme so to minimise disruption. It will also draw on the experience of the Eon Installation Team who have administered similar programmes on behalf of hundreds of social landlords and worked with councils to craft the communications approach.
- 4.4 Eon has also proposed a draft communications plan and a comprehensive customer journey process to ensure promotion, engagement, leads generation and resident care and support during the project remains at the heart of delivery.
- 4.5 With regard to the Energiesprong pilot, a detailed and dedicated tenant engagement strategy and process, based on previous examples on the Nottingham and Maldon



pilots, will ensure that participating households fully understand the financial implications, given appropriate consents and understand that there may be a capital repayment due, should they exercise their Right to Buy.

## **5. Financial Implications**

(Tony McNamara, Interim Finance Business Partner, My Place)

- 5.1 The HRA capital programme has a budget of £1.5m set aside in 2019/20 for energy efficiency work. The project is expected to be completed over two years and therefore any costs incurred this year will be met from this budget. Future years costs will also be funded by this budget which will be available next year.
- 5.2 It may be necessary to carry-over budget from 2019/20 if work this year is lower than £500k to ensure that the project is fully funded in 2020/21.
- 5.3 Consideration will need to be given to any other energy efficiency work earmarked against this budget to ensure that funding is allocated appropriately.

## **6. Legal Implications**

(Graham Marlow, Legal Services)

- 6.1 The proposed procurement is subject to the Public Contracts Regulations 2015 (“the Regulations”) and LBBB’s constitution and contract rules, insofar as it affects LBBB-owned properties.
- 6.2 Works provided to private-sector properties are not within the scope of the above paragraph 6.1 unless LBBB is providing funding.
- 6.3 The proposed spending by LBBB falls below the current OJEU financial thresholds and so does not require competitive tendering according to the Regulations.
- 6.4 As the value is above £500,000, LBBB’s contract rules require Cabinet approval for this procurement.
- 6.5 LBBB’s constitution and contracts rules duly authorise Cabinet to make the contract award as set out in this report.
- 6.6 It is recommended that LBBB consider whether a performance bond is required from EON to guarantee performance of all requirements under the on-going warranty.

## **7. Procurement Implications**

(Euan Beales, Head of Procurement)

- 7.1 The procurement can be viewed in two main elements:
  - a) ECO3 – Following an expression of interest, it was deemed that Eon could provide the services though the ECO3 funding and would be responsible for all processes and procurements in delivering the agreed requirements. It is

understood that for a small service element (solid walls and potentially first-time central heating where relevant) the Council will be required to contribute to a proportion of spend. However, as Eon will be managing the funding and the supply chain there are no procurement requirements for the Council; and

- b) Energiesprong - technical and procurement advice will be conducted by Energiesprong as part of a GLA funded service, with Energiesprong procuring the required services and Barking and Dagenham playing a role in the appointment of preferred installers. Where required, the services being procured will be reviewed against the current works threshold and in the event this is to be exceeded then the required process will be undertaken. Energiesprong propose procuring a specialist contractor to deliver the programme using the OJEU compliant Dynamic Procurement System managed by Crown Procurement Services.

7.2 With both procurements it is envisaged that the threshold will not be reached and will not be required to be tendered under the full process as detailed in EU legislation.

## 8. Other Implications

8.1 **Risk Management Issues** – With regard to ECO3, the preferred partner Eon will, in all circumstances, assume the responsibilities associated with the supply and installation; performance risk of equipment and materials and the risk of any future Government terminating the scheme. In relation to social stock, Eon will need to indemnify the Council against any costs incurred due to damage to property caused by faulty equipment or defective installation. Partners working on private sector dwellings will be solely responsible to the property owners for works commissioned through private agreement. Installers will be responsible for providing the appropriate CIGA and SWIGA guarantees for the installation of cavity and solid wall insulation.

The deep retrofit pilot will be treated differently. An agreement will be put in place between the GLA, the Council and Energiesprong governing the role and support of technical advisers. The Council will enter into a contract with the preferred installers following a tender process. The installers will, in all circumstances, assume the responsibilities associated with the supply and installation of their products to our properties and the guarantees made under the tenant's individual Comfort Plan. The installer will need to indemnify the Council against any costs incurred due to damage to property due to faulty equipment or defective installation. Installers will be responsible for providing the appropriate industry related guarantees for the deployment of their product and measures.

8.2 **Contractual Issues** – Contractual exchanges on both projects will take place over the Autumn and are yet to be decided but all agreements and contracts of works must cover indemnities, warranties and liabilities relating to the installation of works. The project implementation group, comprised of Be First, My Place and Inclusive Growth will be responsible for monitoring the contractual arrangements and delivery of the programme, which will also report back into the Capital Assets Board.

- 8.3 **Corporate Policy, Customer and Equality Impact** - Rising fuel bills affect most people and those identified as qualifying for ECO3 works will be low income households who tend to live in properties with poor thermal comfort. In general, any works that enhance the energy efficiency of dwellings should cut fuel bills, reduce fuel poverty and improve the health outcomes of those suffering from cold-related illnesses.

The proposal is neutral in its impact upon the protected characteristics outlined in the Equality Act 2010.

- 8.4 **Health Issues** – The proposals will have a positive impact upon health issues locally, potentially reducing the number of residents in fuel poverty, alleviating the impact of cold related illnesses and reducing the toll of excess winter deaths.
- 8.5 **Property / Asset Issues** – All aspects of the ECO3 programme are expected to aid and assist the delivery of the thermal comfort element of the Council’s HRA Capital Programme and support the driving up of stock conditions through the Council’s Private Rented Sector Licensing Scheme and collectively, all measures should contribute to the Government’s objective of raising the EPC rating of all properties to level C by 2035. In the case of the deep retrofit pilot this should rise to level A.

All works must be completed by PAS2030:2017 industry accredited installers and Ofgem require that at least 5% of all works in each phase are independently audited for quality assurance purposes.

**Public Background Papers Used in the Preparation of the Report:** None.

**List of appendices:** None.