

Report of Projects, Programmes and Procurement Unit

Report to Director of Resources and Housing

Date: 5th July 2017

Subject: Deed of Variation to the ESIF funding agreement for the Housing DHN

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, name(s) of ward(s): Burmantofts and Richmond Hill	
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, access to information procedure rule number:	
Appendix number:	

Summary of main issues

1. The Council was awarded an ERDF grant of £5.776m in November 2016 to deliver a DH network in Lincoln Green, with the Council committed to £7.32m of HRA match funding.
2. As the ERDF grant agreement was signed prior to conclusion of procurement, the Council was required to submit a formal change request to DCLG to reprofile the programme, outputs and costs once procurement was complete.
3. Vital Energi were awarded the contract to deliver this work in June 2017 and, following that appointment and in discussion with CDCLG, a formal Change Request was submitted. DCLG have assessed this Change Request and accepted it and have issued a Deed of Variation for both parties to sign and seal to formalise the change.

Recommendations

1. To take a Significant Operational Decision to accept the ESIF Deed of Variation to the Housing DHN scheme (project number 20R15P00600), authorising the sealing of the Deed using the Common Seal of Leeds City Council.
2. To write to DCLG confirming the availability of HRA match funding for the revised HRA match level of £6.980m (previously £7.325m).

1. Purpose of this report

- 1.1 To seek authority to sign the Deed of Variation.

2. Background information

- 2.1 The Council was awarded an ERDF grant of £5.776m in November 2016 to deliver a DH network in Lincoln Green, with the Council committed to £7.325m of HRA match funding.
- 2.2 As the ERDF grant agreement was signed prior to conclusion of procurement, the Council was required to submit a formal change request to DCLG to reprofile programme, outputs and costs once procurement was complete.
- 2.3 Vital Energi were awarded the contract to deliver this work in June 2017 and, following that appointment and in discussion with CDCLG, a formal Change Request was submitted. DCLG have assessed this Change Request and accepted it and have issued a Deed of Variation for both parties to sign and seal to formalise the change.

3. Main issues

- 3.1 The Council had previously submitted a Full ESIF Grant Application in March 2016 with a grant request for £5.776m and HRA match of £6.952m. However, as part of the pre-grant award process, the Council was required to update financial figures based on the latest costs obtained through the multistage procurement process, which at the time was at Stage 2.
- 3.2 To ensure that we didn't lose the ESIF funding offer, the Council took a risk that the costs would fall and therefore committed to increase our capital match funding rate from 55% to 56.5%.
- 3.3 The procurement process used was designed to drive cost savings from start to finish of the exercise, as greater certainty was realised. The procurement process therefore did not allow bidders to increase their bid prices from one stage to the next, so Stage 3 bids were an improvement on Stage 2 prices and in line with our initial forecast.
- 3.4 As the final procured costs were almost identical to initial estimate, the principle change is to reverse the match funding increase, so the Council now contributes 55% as originally planned.
- 3.5 Other minor financial changes requested and accepted include:
 - 3.5.1 Reduction in revenue grant of c£4k to reflect reduced staff costs associated with the delay.
 - 3.5.2 Increase in capital grant of c£20k to reflect an expectation that fees will be higher than originally forecast.
- 3.6 A specific requirement of the Deed of Variation is that the Council must supply a match funding letter confirming the Council's match funding for the project.
- 3.7 A request to amend the programme and funding profile has been accepted, pushing back most activities by c3 months to cover procurement slippage and bringing forward some high value procurements (i.e. Heat Interface Unit purchase) to ensure spend prior to mid 2018. Project completion is unchanged at end of 2019.

3.8 No request to amend outputs has been made.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 It is not necessary to consult on this decision.

4.2 Equality and diversity / cohesion and integration

4.2.1 Signing this Deed does not alter the benefits that this scheme will deliver.

4.3 Council policies and best council plan

4.3.1 The decision is in line with council policies.

4.4 Resources and value for money

4.4.1 As detailed above, the Deed of Variation improves the Council's financial position. The Total grant award has been reduced by c£2k but the match funding required of the Council has reduced by c£345k.

4.5 Legal implications, access to information, and call-in

4.5.1 The Deed of Variation presents no new legal or information implications.

4.5.2 As this is a Significant Operational Decision, it is not open to call-in.

4.6 Risk management

4.6.1 The Deed of Variation reduces the risk to the project by reprofiling spend against a realistic programme, taking into consideration the pre-contractual delays.

5. Conclusions

5.1 The Council submitted a formal Change Request to DCLG as was required in the Grant Agreement. This Deed of Variation reflects all the requests made in that Change Request and therefore slightly improves our financial position and reflects the final programme as agreed with Vital Energi.

6. Recommendations

- 6.1 To take a Significant Operational Decision to accept the ESIF Deed of Variation to the Housing DHN scheme (project number 20R15P00600), authorising the sealing of the Deed using the Common Seal of Leeds City Council.
- 6.2 To write to DCLG confirming the availability of HRA match funding for the revised HRA match level of £6.980m (previously £7.325m).

7. Background documents¹

¹ The background documents listed in this section are available to download from the Council's website,

7.1 None

unless they contain confidential or exempt information. The list of background documents does not include published works.