

**Report of the Sustainable Energy and Air Quality Team
Report to the Director of Resources and Housing**

Date: 6th December 2018

Subject: Lincoln Green District Heating in Multi-Storey Flats – Variation to Funding Agreement.

Are specific electoral wards affected? If yes, name(s) of ward(s): Burmantofts and Richmond Hill	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. The Council have negotiated a Funding Agreement Variation with MHCLG to reduce the risk of underspend associated with the ERDF grant for the Lincoln Green District Heating in Multi Storey Flats project.
2. The Council have also secured an offer of an additional £734,469 of ERDF funding to support the installation of external wall insulation in the Shakespeare high rise blocks via the same Variation.
3. The Council now needs to rapidly seal the Variation to secure the additional funding and reduce the risk of clawback from the potential underspend.
4. This report seeks a Significant Operational Decision from the Director of Resources and Housing in order to seal the Funding Agreement Variation.

Recommendations

1. That the Director of Resources and Housing authorises entering into a deed of variation to the funding agreement with MHCLG to:
 - a. re-profile the revenue and capital receipts and expenditure for the Lincoln Green District Heating in Multi Storey Flats project, as outlined in this report; and;
 - b. accept the additional capital grant of £734,469 towards the funding of thermal insulation to the Shakespeare high rise blocks.

1. Purpose of this report

- 1.1 To provide authority to enter the Variation to the Lincoln Green District Heating in Multi-Storey Flats Funding Agreement as proposed by the Sustainable Energy and Air Quality Team and agreed by the Ministry of Homes, Communities and Local Government (MHCLG).

2. Background information

- 2.1 Leeds City Council has been awarded ERDF funding via MHCLG to install district heating in multi-storey flats in the Lincoln Green area.
- 2.2 As part of a mid-programme review, it was identified that revenue spend for staff time was below profile and forecast to lead to an underspend, and capital expenditure was approximately 2 months behind forecast. Overall, the ERDF Pillar 4 budget for the region was also significantly underspent and under committed.
- 2.3 The Council therefore approached MHCLG to explore opportunities to reprofile future expenditure to minimise risk of clawback and to add additional elements to the programme to increase overall expenditure.

3. Main issues

- 3.1 MHCLG have now agreed a formal Change Request and have issued a Funding Agreement Variation to formalise the following changes:
 - 3.1.1 A reprofile of both the revenue and capital budgets to ensure that we remain on track to spend the full ERDF grant of £5,774,495. This results in a decrease of c£250k of revenue and an increase of c£250k of capital, leading to a balanced position.
 - 3.1.2 An additional sum of £734,469 to support the installation of external wall insulation at the Shakespeare high rise blocks as part of contract DN307438.
- 3.2 As part of the Change Request Housing Leeds will commit to using the LCC capital funding saved to thermally insulate a further two multi-storey blocks as outlined in the Housing Leeds 2018/19 Capital Refurbishment Programme.
- 3.3 The Council now needs to seal this Variation. Legal and governance advice has been sought and they have said that the two issues covered within the Variation can be dealt with via a Significant Operational Decision as the following Key Decisions have already been taken:
 - 3.3.1 Executive Board took decision D44638 on 17th July 2017 to delegate authority to the Director of Resources and Housing to enter into all other documentation and take all other decisions required for the delivery of the district heating network project and approve operational decisions relating to the district heating scheme.
 - 3.3.2 On 19th February 2018 The Director of Resources and Housing provided Housing Leeds with authority to award contract DN307438 to Engie to undertake render repairs and install external wall insulation in the three Shakespeare high rise blocks.
 - 3.3.3 On 12th April 2018, the Director of Resources and Housing approved Housing Leeds' 2018/19 Capital Refurbishment Programme – Authority to Spend (reference D47436). This includes an intention to undertake repairs and install thermal insulation in the Shakespeare's blocks.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 All the works outlined in this report have already been agreed to in the previous decisions referenced, therefore all necessary consultation and engagement has been undertaken.

4.2 Equality and diversity / cohesion and integration

4.2.1 All the works outlined in this report have already been agreed to in the previous decisions referenced, therefore equality, diversity, cohesion and integration screening has already been undertaken.

4.3 Council policies and best council plan

4.3.1 The district heating project and installation of external wall insulation will help Leeds to achieve the following Best Council Plan 2018/19 – 2020/21 priorities of:

4.3.1.1 Promoting a low carbon economy

4.3.1.2 Tackling fuel poverty

4.3.1.3 Providing housing of the right quality

4.3.1.4 Targeting work to tackle poverty in priority neighbourhoods.

4.4 Resources and value for money

4.4.1 All the works outlined in this report have already been agreed to in the previous decisions referenced, therefore no additional LCC capital expenditure will be committed as a result of this decision.

4.4.2 Due to the additional grant funding requested, £734,469 of additional capital funding will be available to the council to undertake thermal insulation works to the Shakespeares MSFs.

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

4.5.1 This is a Significant Operational Decision, therefore not eligible for call-in.

4.6 Risk management

4.6.1 The project is currently at risk of underclaims for revenue spend and capital profile which could potentially cost c£500k of funding. The Variation significantly reduces this risk.

4.6.2 The Variation to the Funding Agreement of £734,469 for EWI is still subject to ERDF procurement audit with the associated risk of clawback that is present in all ERDF funded schemes. There is no reason to believe that anything associated with the schemes detailed in this report would be subject to clawback. However, even if 100% clawback was applied, this would leave the Council in no worse position than currently.

5. Conclusions

- 5.1 The proposed Variation to the Funding Agreement is essential to reduce the risk of grant clawback associated with revenue underspend and capital being behind profile. It also has the potential to significantly increase capital funding available to Leeds City Council to improve the thermal efficiency of its housing stock.

6. Recommendations

- 6.1 That the Director of Resources and Housing authorises entering into a deed of variation to the funding agreement with MHCLG to:
- a. re-profile the revenue and capital receipts and expenditure for the Lincoln Green District Heating in Multi Storey Flats project, as outlined in this report; and;
 - b. accept the additional capital grant of £734,469 towards the funding of thermal insulation to the Shakespeare high rise blocks.

7. Background documents¹

- 7.1 There are no background documents

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.