

Report of Chief Officer, Sustainable Energy and Air Quality

Report to Director of Resources and Housing

Date: 10th October 2019

Subject: Contract and financial decisions to deliver the ERDF funded Fitting the Future project (FTF).

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, name(s) of ward(s): Bramley and Stanningley, Killingbeck and Seacroft, Hunslet and Riverside and Middleton Park.	
Has consultation been carried out?	<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
Will the decision be open 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

1. Main issues

- The council submitted a full ERDF grant application in August 2018 for Fitting the Future (FTF).
- FTF aims to build a new business case for solar PV and trial how consumer demand for electricity can be managed, to complement or reduce the need for major investments in electricity grid infrastructure. The project will:
 - install a smart renewable generation and storage system, comprising solar panels and batteries, to 250 council houses together with external wall insulation (EWI), LED lighting and smart heating controls.
 - provide solar panels and innovative electric vehicle charging infrastructure to a corporate building.
- A decision in principle has been taken by MHCLG to fund the project and signing the grant funding agreement will ensure c£2.7m of external funding is available for the project. Match funding of £1.4m has been committed from the existing Capital Programme to pay for EWI. A further c£1.2m of private sector funding will be sought for the scheme via a competition.
- The grant funding agreement needs to be signed within 14 days of a formal offer being received and conditions cannot be negotiated. MHCLG have asked us to ensure the

agreements and signed and sealed by both parties by the 31st October. This will require taking the decision without the consultation period in order to seal and return the grant agreement to MHCLG by 25th October.

- This project cannot be delivered by either internal service providers or existing contracts, therefore an external contractor will be procured to deliver the programme.
- Since no suitable frameworks exist and funding provision is required from the contractor, procurement will involve either a restricted or competitive dialogue process. The restricted procedure is preferred if a clear commercial case which reflects our market sounding information can be developed.
- Procurement will be carried out by the Project Team with advice from Procurement and Commercial Services. An evaluation report with a recommendation of a contractor will be presented to the Director of Resources and Housing.
- An ERDF condition is that all costs defrayed on the project can be identified and are claimed in arrears. A separate capital cost code needs to be set up to ensure this condition is and the HRA match funding needs to be injected into this so that contractors can be paid before the money is reclaimed and invoice payment terms can be met.

2. **Best Council Plan Implications** (click [here](#) for the latest version of the Best Council Plan)

- Leeds City Council's Best Council Plan 2015-20 sets the ambition to be the best city where everyone in Leeds lives in good quality, affordable homes within clean and well cared for places measured through the energy and thermal efficiency performance of houses. FTF improves 250 system built council houses making them more thermally efficient, with renewable energy provision, directly contributing to this ambition.

Resource Implications

- Acceptance of this grant will add c£2.7m of external ERDF funding into the HRA Capital Programme.
- The programme will be delivered with match funding of £1.4m from the approved Housing Revenue Account Capital Programme.
- An additional, £1.2m of private sector funding will be secured during procurement.
- A restricted procedure is preferred for procurement, however advice is being sought on whether the commercial proposal is clear enough and if not a negotiated procedure will be used.

Recommendations

The Director of Resources and Housing is recommended to:

- a) Provide authority to enter into an ERDF grant agreement for £2,701,332 for the FTF programme;
- b) Inject £2,701,332 of ERDF grant funding into the Housing Leeds Capital Programme with match funding of £1,352,926 provided from the non-traditional and hard to treat budget within the approved Housing Revenue Account Capital Programme plus £1,189,159 of private sector match funding when secured;

- c) Provide authority to spend for £5,402,666 to deliver the entire FTF programme;
- d) Provide authority to procure a contractor to deliver this work using either a restricted procedure or a negotiated procedure;
- e) Due to the need to agree the funding by 31st October, permission is asked to waive the call in period.

1. Purpose of this report

- 1.1 To provide an update on progress with the Fitting the Future (FTF) project and to take the necessary decisions to deliver FTF.

2. Background information

- 2.1 A call for ERDF PA4 applications was issued in September 2017. Three low carbon projects, including FTF, were submitted by Leeds as outline applications in November 2017.
- 2.2 The Full Application for FTF was submitted in August 2018 and, following assessment by MHCLG over an extended period, a decision in principle to award an ERDF grant for FTF was taken on 13th September 2019. Both parties must now sign a grant agreement to confirm the grant funding.
- 2.3 FTF aims to build a new business case for solar power installation and trial how consumer demand for electricity can be managed, to complement or reduce the need for major investments in electricity grid infrastructure.
- 2.4 The project will install a renewable generation and storage system, comprising solar panels and batteries, to 250 council owned houses which will be transformed to low energy houses by external wall insulation (EWI), LED lighting and smart heating controls.
- 2.5 The project will also provide solar panels and innovative electric vehicle charging infrastructure to a corporate building.

3. Main issues

- 3.1 A decision in principle has been taken by MHCLG to fund the project and signing the grant funding agreement will ensure c£2.7m of external funding is available for the project. Match funding of £1.4m has been committed from the existing Capital Programme to pay for EWI. A further c£1.2m of private sector funding will be sought for the scheme.
- 3.2 The grant funding agreement needs to be signed within 14 days of a formal offer being received and conditions cannot be negotiated. MHCLG have asked us to ensure the agreements are signed and sealed by both parties by the 31st October. This will require taking the decision without the call in period in order to seal and return the grant agreement to MHCLG by 25th October.
- 3.3 This project cannot be delivered by either internal service providers or existing contracts, therefore an external contractor will be procured to deliver the programme.
- 3.4 Since no suitable frameworks exist and funding provision is required from the contractor, procurement will involve either a restricted or competitive dialogue process. We are currently working on which of these will be best placed to deliver

the project. The restricted procedure is preferred if a clear commercial case which reflects our market sounding information can be developed.

- 3.5 Procurement will be carried out by the Project Team with advice from Procurement and Commercial Services. An evaluation report with a recommendation of a contractor will be presented to the Director of Resources and Housing.
- 3.6 An ERDF condition is that all costs defrayed on the project can be identified and are claimed in arrears. A separate capital cost code needs to be set up to ensure this condition is and the HRA match funding needs to be injected into this so that contractors can be paid before the money is reclaimed and invoice payment terms can be met.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Environment Programme Board and the Affordable Warmth Partnership have been kept informed of the progress of the ERDF Application.
- 4.1.2 The Executive Member for Climate Change, Transport and Sustainable Development has been briefed.
- 4.1.3 The Repairs and Investment Group, a tenant focus group, were presented with the project and asked for comment, on the 4th June 2018. The project was generally well received and supported. Their main concern was that under the project people would either receive all the measures or none, depending on which way their property faced. This could seem unfair and potentially cause problems within the community. Therefore links are being made with future external wall insulation schemes, so that people on the estates chosen will be able to experience some of the benefits sooner rather than later.
- 4.1.4 A Tenant Liaison Officer will liaise with tenants before installation starts, keep tenants informed of progress and give advice on how to use the energy storage system and smart controls and how the insulation affects their home.
- 4.1.5 Once this offer has been developed we will brief ward members ideally via community committee meetings.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 FTF is designed to combat fuel poverty, one of the LCC Equality Improvement Objectives 2016 – 20, and so will have a positive effect on equality. An impact assessment was carried out by Housing Leeds on 17th April 2018.
- 4.2.2 Tenants should save about £450 pa, through a combination of reduced heating bills, through insulation and smart heating controls and reduced electricity bills through LEDs and buying the electricity generated and stored at cheaper than the normal grid price.
- 4.2.3 The solar panels can only be offered to houses with roofs facing in the right direction, tenants in the area will be engaged to explain why only some people are being offered the renewable energy storage system.

4.3 Council policies and the Best Council Plan

4.3.1 The ERDF project fits with the council's overall aims to reduce carbon emissions and address fuel poverty, specifically:

- Leeds City Council's Best Council Plan 2015-20 sets the ambition to be the best city where everyone in Leeds lives in good quality, affordable homes within clean and well cared for places measured through the energy and thermal efficiency performance of houses.
- LCC Equality Improvement Priorities 2016-20, include:
 - Compassionate City - Living safely and well, living at home, and valuing communities
 - Reducing fuel poverty increases life expectancy, improves mental health and wellbeing and reduces health inequalities.

Climate Emergency

4.3.2 Leeds Climate Change Strategy has the following targets:

- 40% CO₂ reductions from all sectors from 2005-2020
- and net zero by 2030.

The project is forecast to save an average of 2,492 kgCO_{2e} pa per household, equating to 623 tonnes of CO_{2e} pa for the project.

The commercial depot is forecast to save 14,200 kg CO_{2e}, with an additional 6,940 kgCO_{2e} from avoided diesel use in four vans

The demonstration of a new business case for domestic renewables and storage has the potential to allow much greater use of this technology. Demonstration of savings to the local grid may provide a business case for the local DNO to provide funds for further investment in renewables and insulation.

4.3.3 Affordable Warmth Strategy 2017-30:

- increase the average SAP rating of housing in Leeds to band C by 2020 as a whole, and to ensure that no properties are below band E by 2030;
- to ensure that resident's health and wellbeing isn't put at risk due to being unable to heat their home, as per the NICE guidelines on preventing excess winter deaths.

At least 250 homes will have their SAP rating improved by an average of 33 points.

This project will also deliver the following benefits:

- Reduce energy use by an average 34% per household, allowing tenants to afford to live in a warmer, more comfortable home and lifting an expected 200 households out of fuel poverty.
- Reduce humidity levels and surface condensation which can lead to mould growth.
- Improve the health of tenants, particularly those suffering from diseases affected by cold and damp such as asthma, COPD, or mental health conditions.

4.4 Resources, procurement and value for money

- 4.4.1 ERDF grant funding is external funding. Acceptance of this grant funding will add c£2.7m into the Capital Programme.
- 4.4.2 The programme will be delivered with match funding of £1.4m provided from the non-traditional and hard to treat budget, within the approved Housing Revenue Account Capital Programme. We also expect to attract c£1.2m of private sector investment into the project.
- 4.4.3 Procurement is covered in the main issues section.

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

- 4.5.1 A Key Decision is required to accept any ERDF grant funding, inject it into the capital programme and give authority to spend. Forward notification of this key decision has been published. However the forward notification period will not be 28 days as the decision is required by MHCLG before the 24th October in order to guarantee the funding, so this decision will be taken under the Constitution's 'General Exception' regulations.
- 4.5.2 A legal grant agreement will need to be entered into before grant money can be accessed. The grant agreement has to be signed within 14 days of it being offered and cannot be negotiated. The council has entered into ERDF grant agreements before on the same standard terms and conditions, which have previously been checked by Procurement and Contracts.

4.6 Risk management

- 4.6.1 Corporate risk 24 is that 'Council does not meet CO₂ emissions reduction targets and improve home energy efficiency'. The ERDF projects both contribute towards mitigating both of these risks and so should be pursued.
- 4.6.2 ERDF have strict clawback processes for any projects that are deemed to be non-compliant with procurement rules. The procurement methodology will be chosen to maximise access to the markets and detailed records will be kept to minimise risk of clawback.

5. Conclusions

- 5.1 FTF aligns with council priorities, tackles poverty in deprived neighbourhoods and will produce carbon savings. It attracts up to £3.9m of external funding and so the grant funding agreement should be signed.
- 5.2 An external contractor is required to deliver the scheme and therefore should be procured.

6. Recommendations

The Director of Resources and Housing is recommended to:

- a) Provide authority to enter into an ERDF grant agreement for £2,701,332 for the FTF programme;
- b) Inject £2,701,332 of ERDF grant funding into the Housing Leeds Capital Programme with match funding of £1,352,926 provided from the non-traditional and

hard to treat budget within the approved Housing Revenue Account Capital Programme plus £1,189,159 of private sector match funding when secured;

- c) Provide authority to spend for £5,402,666 to deliver the entire FTF programme;
- d) Provide authority to procure a contractor to deliver this work using either a restricted procedure or a negotiated procedure;
- e) Due to the need to agree the funding by 31st October, permission is asked to waive the call in period.

7. Background documents¹

7.1 None.

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.