

**Report of Head of Housing Contracts, Projects and PFI**

**Report to Director of Resources & Housing**

**Date: 25 September 2020**

**Subject: Swarcliffe Housing PFI Gas installation- Deed of Variation and additional capital allocation**

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, name(s) of ward(s):	Cross Gates and Whinmoor
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 checked="" type="checkbox"/> Yes <input 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 Swarcliffe Housing estate contains one of Leeds largest areas of low rise domestic housing still without a gas main, or access to cost effective gas central heating. As part of the Housing Leeds investment strategy 2016-2024, Housing Leeds plans to implement a series of heating and renewable energy schemes within their housing stock, including through the installation of gas mains and gas central heating in all electric properties.
- Leeds City Council's Sustainable Energy & Air Quality team has successfully secured £1,530,000 of external grant funding through a bid led by West Yorkshire Combined Authority, to the National Grid Warm Homes Fund (WHF). This external funding, will enable installation of heating systems in 840 properties across the Swarcliffe estate. This was the subject of a previous DDN to the Director of Resources and Housing on 02/04/2019, approving the necessary capital funding and entering into a grant agreement.
- The bid included 471 Council properties that are currently managed by Yorkshire Transformations Ltd, under the Swarcliffe Housing PFI contract. Due to access refusals works will only be carried out at 419 properties. As a consequence it is necessary to enter into a Deed of Amendment to the PFI contract to enable these works to take place. The necessary capital approvals for these works are covered by the Swarcliffe Gas Installation report to the Director of Resources and Housing

(April 2019) and the annual Capital Programme report to Executive Board (February 2019 and 2020, Key Decision authorising capital expenditure from the HRA).

- In the development of the project it has been identified that there is a requirement for additional capital funding of £479,800. This is as a result of the tender prices being returned higher than anticipated. The successful Tender has been fully reviewed and represents VFM. In addition the level of external professional fees have increased due to the complexity of the project, and the elongated timescale in carrying out necessary negotiation. This additional capital funding can be provided by an in year underspend from 32022/000 Heating & Energy Efficiency Parent Pot.
- The gas central heating systems installed in the Council properties will be maintained through the PFI contract. This maintenance and lifecycle regime will require an increase to the Unitary Charge of up to £35,000 per annum over the remaining years of the PFI contract.
- This report is an update following the decision taken on 7 September 2020 (D52264) and reflects the gross calculations for the Unitary Charge as opposed to the Net costs.

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

- The project will support the following priorities of the Best Council Plan-2019/20 - 2020/2021:
- Housing- The project will improve energy performance in homes, reducing fuel poverty in the area by providing residents with more affordable heating which is easier to control and use.

## **3. Resource Implications**

- The increase in the Unitary Charge up to £35,000 (2019/20 prices), and will be subject to annual indexation. This is estimated to be a total of £525,000 over the remaining years of the PFI concession and can be funded from HRA budgets. This figure will be subject to review at the date the Deed of Amendment is signed by all parties.
- The funding and project budgets in respect of the Swarcliffe gas project, were approved in the annual Capital Programme report to Executive Board (February 2019 & 2020 key decisions authorising capital expenditure from the HRA) and in a report to the Director of Resources and Housing on 02/04/2019.
- As a consequence of increased costs experienced through the tender process, there is a requirement for an additional capital funding. In addition in the development of the project, professional fees have increased due to the complexity and elongated timescale involved in negotiations. The additional funding requirement of £479,800 can be funded from an in-year underspend from 32022/000 Heating & Energy Efficiency Parent Pot.

## **Recommendations**

The Director of Resources & Housing is recommended to:

- a) Approve the Council entering into a Deed of Amendment with Yorkshire Transformations Limited (YTL) to vary to the Swarcliffe PFI contract entered into

between the Council and YTL on 18 March 2005 (the Swarcliffe PA) together with any other ancillary documents including but not limited to the collateral warranty to be entered into between the Council and Engie Regeneration Limited. This will enable the installation of gas central heating to up to 471 Council properties and will enable YTL to procure all necessary works as required in the terms of the Warm Home Fund grant (the Project).

- b) Approve the annual uplift in Unitary Charge payable by the Council to YTL under the Swarcliffe PA by up to £35,000. This is estimated to be up to a total of £525,000 over the remaining 15 years of the PFI concession and can be funded from within HRA budgets.
- c) Note that £1,324,324 capital expenditure was approved by a decision of the Director of Resources and Housing on 01/05/19 for the Project, and further noted that projected capital spend is now £1,804,124.
- d) To approve an additional authority to spend of £479,800 on the Swarcliffe gas mains extension project 32022/SWA/000. This allocation can be funded from an in year underspend on the 32022/000 Heating & Energy Efficiency Parent Pot within the approved capital programme.

## **1. Purpose of this report**

- 1.1 The purpose of this report is to provide the Chief Officer Housing with the necessary information to enable a decision to be made regarding the allocation of additional capital funding and the development of a Deed of Amendment to the Swarcliffe Housing PFI contract.

## **2. Background information**

- 2.1 The Swarcliffe estate contains a high proportion of homes heated by electric storage heaters, and was identified by Communitas Energy (working on behalf of Northern Gas Networks (NGN)) for free of charge installation of a gas network.
- 2.2 The installation of the gas network was phase 1 of the project and has now been completed across the estate. This report concerns Phase 2 of the project, which comprises of the installation of gas central heating systems in homes.
- 2.3 The Swarcliffe Estate is one of the very few areas in the city that previously had no gas network infrastructure and has such a sizeable amount of council housing. The whole area falls within the 25% area of highest multiple deprivation in the country with 78% falling within the 10% area of highest multiple deprivation. All properties had an energy rating of band D or lower. This means a large proportion of households in the area are susceptible to low income and fuel poverty.
- 2.4 In collaboration with a number of partners, Leeds City Council were successful in securing £1.53m external grant funding for National Grid Warm Homes Funding, for properties across the Swarcliffe estate.
- 2.5 The bid included funding for gas installation works to 471 Council owned properties across the Swarcliffe estate. Due to Tenants not allowing access we are only proposing to carry out works to 419 properties. These properties are currently managed by a PFI consortium, Yorkshire Transformations Ltd, on behalf of Leeds

City Council. To enable the gas installation works to be carried out by the PFI Contractor a Deed of Amendment is required between parties to the PFI contract.

### **3. Main issues**

- 3.1 The combination of Warm Homes Funding and HRA enables works to be carried out to 419 Council properties across the Swarcliffe estate. These are currently being managed as a concession by Yorkshire Transformations Ltd under the Swarcliffe Housing PFI contract.
- 3.2 In the development of the Swarcliffe gas project it has been recognised that there is a requirement for additional capital funding to enable successful project delivery. This is due to the tender for the gas installation works being received at higher prices than anticipated. In addition the professional fees have increased due to the complexity and timescale involved with the contractual negotiations.
- 3.3 To enable the works to be carried out through the PFI contract, a Deed of Amendment needs to be formalised between Leeds City Council and the PFI contractor. This entails drafting and reviewing of legal work between all contractual parties. All associated legal costs have been previously covered in the Swarcliffe gas installation report to the Director of Resources and Housing in April 2019.

### **4. Corporate considerations**

#### **4.1 Consultation and engagement**

- 4.1.1 Partners in the PFI concession (Yorkshire Transformations Ltd, Engie and Yorkshire Housing) have been fully consulted regarding the Deed of Amendment and taken their own legal advice.
- 4.1.2 The Leeds City Council Sustainable Energy & Air Quality and the Housing Leeds PFI Contract Monitoring teams have delivered joint communications to local ward members and council residents.
- 4.1.3 Engie as the contractor installing the heating systems have sent leaflets and communications out to residents to keep them informed. These are signed “working in partnership with Leeds City Council”.
- 4.1.4 A report was issued to the Director of Resources and Housing by the Sustainable Energy and Air Quality Team in April 2019. This report was to approve capital injections and grant funding for the installations.
- 4.1.5 The Executive Board Member for Climate Change, Transport and Sustainable Development and the Executive Member for Communities have received briefings from the Sustainable Energy & Air Quality team regarding the overall programme.
- 4.1.6 The Executive Member for Communities has received a briefing from Housing Leeds regarding the Council housing element in particular in January 2020.

#### **4.2 Equality and diversity / cohesion and integration**

- 4.2.1 An EDCI screening document has previously been completed and submitted in respect of the gas installation works at the Swarcliffe estate.
- 4.2.2 Entering into this Deed of Amendment will allow works to be carried out that will help alleviate fuel poverty in the area by providing residents with more affordable heating which is easier to control and use.

### **4.3 Council policies and the Best Council Plan**

- 4.3.1 The project will support the following priorities of the Best Council Plan- 2019/20 - 2020/2021:
- 4.3.2 Housing- The project will improve energy performance in homes, reducing fuel poverty in the area by providing residents with more affordable heating which is easier to control and use.

#### Climate Emergency

- 4.3.3 Entering into this deed enables works to be carried out that will be future proofed in terms of the decarbonisation strategy. This is through Leeds City Council working with Northern Gas Networks so that the gas network can be used for hydrogen in the future. This would make Leeds the leader with this new development and the first in the country to develop its systems towards this.
- 4.3.4 The installation of these systems contribute to Leeds City Council's targets for reduction in fuel poverty and carbon reduction.

### **4.4 Resources, procurement and value for money**

- 4.4.1 All necessary funding for the Deed of Amendment was approved in the annual Capital Programme report to the Executive Board (February 2019 & 2020 Key Decisions authorising capital expenditure from the HRA) & in a report to the Director of Resources & Housing on 02/04/2019 in respect of the Swarcliffe gas works.
- 4.4.2 The Annual increase in the Unitary Charge has been the subject of review by officers in the Housing PFI team and colleagues in Procurement and Commercial Services. The improved maintenance and lifecycle regime will result in an increase of up to £35,000 to the Annual Unitary charge service fee, which is deemed to provide value for money to the council and citizens.
- 4.4.3 The previous phase of this project involved the installation of the gas network free of charge, which is estimated to be a saving of approximately £2m to Leeds City Council.
- 4.4.4 Approximately £380,000 of grant funding will be claimed back by the council for installation of the heating systems into council properties (through the Warm Home Fund).
- 4.4.5 The additional capital funding of £479,800 can be allocated from an in year underspend on 32022/000 Heating & Energy Efficiency Parent Pot. This will increase the approved Authority to Spend to £1,804,124 in respect of the Swarcliffe gas mains project 32022/SWA/000, detailed on the attached Form 5.

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

- 4.5.1 The costs for the Heating installation works and the Deed of Amendment have been approved in the annual Capital Programme report to Executive Board (February 2019 and 2020, Key Decision authorising capital expenditure from the HRA), and the Swarcliffe Gas installation DDN, which was approved by the Director of Resources and Housing on 02/04/2019. The costs associated with the Deed of Amendment have been reviewed by legal colleagues in Procurement and Commercial Services, and these can be funded from existing approvals.
- 4.5.2 This decision to approve the Deed of Amendment and authorise the annual increase to the Unitary Charge should be treated as Significant Operational Decisions.

4.5.3 The decision is not subject to call in.

## **4.6 Risk management**

4.6.1 In respect of the gas installation works, Project Management principles will be applied and monthly meetings will be held between all parties to discuss all operational matters including risk and how this can be addressed and mitigated.

4.6.2 The works in the Council Properties are being carried out by the PFI contractor, therefore risk is transferred to the private sector.

4.6.3 No specific risks relating to entering into this Deed of Amendment have been identified.

## **5. Conclusions**

5.1 Leeds City Council's Sustainable Energy & Air Quality team were successful in bidding for £1,530,000 from National Grid warm Homes Funding. This funding is being combined with HRA to carry out a programme of gas heating installation works to properties across the Swarcliffe estate. This has been the subject of a previous DDN to the Director of Resources and Housing on 02/04/2019.

5.2 The programme of works includes installation of gas heating to 471 Council properties, which are currently managed by Yorkshire Transformations Ltd under the Swarcliffe Housing PFI contract. Due to no access refusals works will only be carried out at 419 properties.

5.3 The development stage of the Swarcliffe gas project has identified the need for additional capital funding. The Tender exercise has resulted in tender prices being returned higher than anticipated. Due to the complexity of the project this has resulted in prolonged negotiations around the PFI contract, and increased professional fees. These are detailed on the attached Form 5.

5.4 To enable the works to take place to the PFI properties, a Deed of Amendment will be required to the PFI contract.

5.5 The funding and project budgets were approved in the annual Capital Programme report to Executive Board (February 2019 and 2020, Key Decision authorising capital expenditure from the HRA), and in a report to the Director of Resources and Housing on 02/04/2019

## **6. Recommendations**

The Director of Resources & Housing is recommended to:

- a) Approve the Council entering into a Deed of Amendment with Yorkshire Transformations Limited (YTL) to vary to the Swarcliffe PFI contract entered into between the Council and YTL on 18 March 2005 (the Swarcliffe PA) together with any other ancillary documents including but not limited to the collateral warranty to be entered into between the Council and Engie Regeneration Limited. This will enable the installation of gas central heating to up to 471 Council properties and will enable YTL to procure all necessary works as required in the terms of the Warm Home Fund grant (the Project).
- b) Approve the annual uplift in Unitary Charge payable by the Council to YTL under the Swarcliffe PA by up to £35,000. This is estimated to be up to a total of

£525,000 over the remaining 15 years of the PFI concession and can be funded from within HRA budgets.

- c) Note that £1,324,324 capital expenditure was approved by a decision of the Director of Resources and Housing on 01/05/19 for the Project, and further noted that projected capital spend is now £1,804,124.
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## **7. Background documents<sup>1</sup>**

7.1 <http://democracy.leeds.gov.uk/ieListDocuments.aspx?CId=102&MId=9776&Ver=4>

7.2 <http://democracy.leeds.gov.uk/ieListDocuments.aspx?CId=102&MId=8196&Ver=4>

7.3 <https://democracy.leeds.gov.uk/ieDecisionDetails.aspx?ID=48645>

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<sup>1</sup> 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.