

# Housing District Heating: approval to enter into a grant agreement

Date: 2 September 2021

Report of: Head of Strategy & Investment

Report to: Director of Communities, Housing and Environment

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

## What is this report about?

### Including how it contributes to the city's and council's ambitions

- The council's application to secure European Regional Development Funding (ERDF) for the Clustering for Warmth project has been successful, with up to £7,402,351 of grant offered by the Ministry of Housing, Communities and Local Government (MHCLG) to fund 50% of the eligible costs of the project.
- This project is the first four of six clusters of housing high rise blocks receiving district heating investment, replacing the heating and hot water systems with low carbon systems. The delivery of district heating clusters is part of the council's activity to tackle the climate emergency, and address fuel poverty, improve energy performance and quality in homes.
- The key decision to progress this scheme was taken in July 2020 when procurement of an external contractor and authority to spend was approved, and plans to secure ERDF funding were explained.
- Signing the associated ERDF grant funding agreement will provide up to c£7.4m of external funding for the Clustering for Warmth project, enabling previously allocated council funding to be reallocated for further housing capital programme schemes.

## Recommendations

- a) Authorise entry into a grant funding agreement with the ERDF for £7,402,351 to be contributed to the Housing District Heating Clusters "Clustering for Warmth" project; and
- b) Approve the injection of this £7,402,351 ERDF grant funding into the Housing Leeds Capital Investment Programme.

## Why is the proposal being put forward?

- 1 In November 2019 the initial outline ERDF funding assessment for this project was successful, a grant offer has now been made on 19 August 2021 following a full detailed application submission and assessment by the MHCLG.
- 2 Approval is needed to enter into the grant agreement, and for the injection of this external funding into the Housing Revenue Account's (HRA) Capital Programme. The grant funding agreement is required to be signed within 14 days of the formal offer however, the project team have been successful in obtaining an extension until 10 September 2021.
- 3 The Clustering for Warmth project receiving this ERDF grant funding is for the first four of six District Heating Clusters of housing high rise blocks. Due to the completion date constraints of ERDF funding, the council is only able to claim for these first four clusters.
- 4 ERDF will fund 50% of the agreed eligible costs, from a start date of 31 May 2020, until the activity end date of 6 January 2023. Payments are made quarterly in arrears and based on actual costs defrayed.

## What impact will this proposal have?

**Wards affected: Gipton & Harehills, Killingbeck & Seacroft, Armley**

Have ward members been consulted?  Yes  No

- 5 Signing the ERDF grant funding agreement will acquire up to c£7.4m of external funding for the project, enabling existing reserved council funding to be redistributed for use on other housing capital programme schemes.
- 6 The District Heating Clusters scheme plans to reduce resident's fuel costs, and improve their ability to control heating, as well as to reduce carbon emissions through the installation of new ground source heat pump systems. Further detail is provided in the background documents.
- 7 The eighteen blocks set for inclusion within the first four clusters is detailed below. The Wykebeck Valley and Barncrofts clusters have recently started works on site, with Poplars and Burnsalls clusters planned to start in January 2022 (subject to a future decision report on contract award).

Cluster name	Building Name	Address	Council Ward
Wykebeck Valley	Brecon Court Brecon Rise Denbigh Croft Denbigh Heights Pembroke Grange Pembroke Towers	Flat 1-47, LS9 6RW Flat 1-47, LS9 6RN Flat 1-47, LS9 6RJ Flat 1-47, LS9 6RL Flat 1-47, LS9 6RH Flat 1-47, LS9 6RQ	Gipton & Harehills
The Barncrofts	Barncroft Court Barncroft Grange Barncroft Heights Barncroft Towers	Flat 1-47, LS14 1HT Flat 1-47, LS14 1HS Flat 1-47, LS14 1HP Flat 1-47, LS14 1HR	Killingbeck & Seacroft
The Poplars	Poplar Court Poplar Court Poplar Mount Poplar Mount	Flat 1-47, LS13 4SW Flat 48-93, LS13 4SR Flat 1-47, LS13 4SS Flat 48-93, LS13 4ST	Armley

The Burnsalls	Burnsall Court Burnsall Gardens Burnsall Croft Burnsall Grange	Flat 1-47, LS12 3NX Flat 1-55, LS12 3NY Flat 1-100, LS12 3LH Flat 1-100, LS12 3LG	Armley
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- 8 An Equality, Diversity, Cohesion and Integration (EDCI) impact assessment has been undertaken on the district heating clusters scheme, this can be found within the key decision to progress the scheme. An EDCI screening on this decision for entry into an ERDF grant funding agreement and injection into the HRA capital programme and is attached (appendix A). There are no key points arising.

### What consultation and engagement has taken place?

- 9 The Executive Member for Environment and Housing has been consulted through the scheme's previous governance decisions, and is supportive of the recommendations set out in this report.
- 10 Legal colleagues in both Procurement & Commercial Services, and the Commercial Property Team, have been consulted and are providing support in relation to the execution of the agreement as a Deed of Grant and completion of the Certificate of Title which provides evidence to MHCLG of the Council's title to the properties concerned.
- 11 The project team has also consulted colleagues in Finance, and in the Sustainable Energy and Air Quality.
- 12 Consultation and engagement of Ward Members and residents is ongoing in relation to the district heating clusters scheme, they have not been consulted on the ERDF grant funding agreement or the required funding injection into the HRA; this consultation has been deemed unnecessary.

### What are the resource implications?

- 13 ERDF grant funding is external funding, its acceptance will avail funding within the HRA Capital Programme which can be reallocated for other schemes, potentially for alternative high-rise blocks that also require heating or energy efficiency upgrades.
- 14 The amount of ERDF grant funding will not exceed the maximum sum of £7,402,351 and has been determined as follows:
- (a) 50% of the Eligible Capital Expenditure up to the Capital Maximum Sum of £7,009,173.
- (b) 50% of the Eligible Revenue Expenditure up to the Revenue Maximum Sum of £393,178.
- 15 The funding table below outlines the proposed allocation of ERDF grant funding across the financial periods 2020/21 to 2023/24.

(£) Funding Contributions	Public/Private	2020	2021	2022	2023	Total
ERDF	Public	49,958	1,288,475	5,432,507	640,412	7,402,352

- 16 It should be noted that one ERDF condition is for all costs defrayed on the project to be identified and claimed in arrears. A separate cost code will be set up to ensure this condition is met. The HRA match funding will be injected into this so that contractors can be paid before the money is reclaimed, and invoice payment terms can be met.

### What are the legal implications?

- 17 This decision is a significant operational decision, as it is a direct consequence of the key decision on the scheme taken in July 2020. It is not eligible for call-in. There are no grounds for keeping the contents of this report confidential under the Access to Information Rules.

- 18 A legal grant agreement will need to be entered into and the Certificate of Title provided to MHCLG before grant money can be accessed. The grant agreement needs to be signed within 14 days of it being offered however, has been extended to the 10 September 2021. The council has entered into ERDF grant agreements previously on the same terms and conditions, which have previously been checked by Procurement and Contracts. Details specific to this project are being reviewed, for example to provide certificates of title on the properties involved.
- 19 The funding agreement identifies a range of milestones which need to be achieved to help ensure the project remains on track.

### **What are the key risks and how are they being managed?**

- 20 As the ERDF grant is only paid against eligible expenditure and actuals defrayed from the agreed start date, if delivery does not align to the agreed profile for spend per financial year and the agreed milestones within the agreement; there is a risk of grant shortfall or overspend.
- 21 The Strategy and Investment team are tasked with ensuring all key staff working on the scheme are familiar with ERDF requirements and the nature of the contract. These staff are required to work closely with the contractor to keep project activity on track, liaise with MHCLG officers on project progress, and; to ensure that appropriate records are kept up-to-date including the preparation of documentation for ERDF audits, and held in line with retention requirements.

### **Does this proposal support the council's three Key Pillars?**

- Inclusive Growth       Health and Wellbeing       Climate Emergency

- 22 This proposal itself does not directly support any of the three pillars as it relates to financial changes, these will enable further housing schemes to be funded. The project receiving grant funding supports all the pillars, details are available in the background reports.

### **Options, timescales and measuring success**

#### **What other options were considered?**

- 23 The July 2020 decision report outlined that there was a risk of not securing ERDF funding, which has been why council funding has been held in reserve for this scheme.

#### **How will success be measured?**

- 24 We will measure success by the successful progression of the project, to the agreed milestones and targets, and undertaken in line with ERDF funding rules and requirements.

#### **What is the timetable for implementation?**

- 25 Once approval has been received, signing of the ERDF agreement will be progressed as quickly as possible, and the capital funding changes made.
- 26 In relation to progression of the Clustering for Warmth scheme itself, work has recently started on site at the Wykebeck Valley and Barncrofts clusters, other key milestones include:
- a) Date of submission first grant claim – 28 October 2021
  - b) Poplars and Burnsalls clusters start on site following contract award – 10 January 2022
  - c) Wykebeck Valley and Barncrofts clusters complete on site – by 21 March 2022
  - d) Poplars and Burnsalls clusters complete on site, and all project works complete – by 21 October 2022

e) Financial and practical completion – by 31 May 2023

## **Appendices**

27 Appendix 1 - Equality and diversity and cohesion and integration screening

## **Background papers**

28 Key decision report – [Approval for the Housing District Heating Clusters scheme](#) (July 2020)

29 [Contractor Tender Evaluation Results & Contract Award for Design Activity](#) (March 2021)

30 [Construction Contract Award for Wykebeck Valley and Barncrofts high rise clusters](#) (July 2021)