

Title of report: Acceptance and implementation of Sustainable Warmth funding project

Decision maker: Cabinet member environment and economy

Decision date: 25 March 2022

Report by: Senior Project Manager

Classification

Open

Decision type

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

(All Wards);

Purpose

The report seeks approval for the Council to accept Sustainable Warmth grant funding of up to £2,442,000 via the signing of a Grant agreement with the Midlands Energy Hub.

Sustainable Warmth is a combination of two grant funding streams- Local Authority Delivery phase 3 (LAD 3) and Home Upgrades Grant phase 1 (HUG 1)

This funding will be used to enable an estimated 150 fuel poor households across Herefordshire to be supported with home energy efficiency and renewable heating measures.

Recommendation(s)

That:

- a) The Council signs the Grant letter with the Midlands Energy Hub (MEH) for up to £2,442,000 of Sustainable Warmth grant funding and delivers the project as set out in this report across Herefordshire;**

- b) the scheme criteria set out in paragraphs 13 to 16 of this report be approved;
- c) The Service Director Highways, Environment and Waste is authorised to take all operational decisions necessary to implement the scheme.

Alternative options

1. Not to accept the grant funding- this is not recommended as this would make it difficult for Herefordshire fuel poor households to receive support at the levels stated within the bid, as other funding streams alone are likely to result in significant funding shortfalls for fuel poor households. It would also result in a risk of not achieving the council's strategic objectives within the County Plan 2020 – 2024 and Health & Wellbeing Strategy and will not make progress towards the Council's 2030 net zero carbon ambition for the county.
2. Part accept the grant funding- This is not recommended at this time as the allocated funding is similar to estimates made as to what would be a more measured and realistic delivery profile. This could be considered further into the project if targets and outcomes were not being achieved.

Key considerations

3. Sustainable Warmth funding combines two funding streams with separate allocations and maximum funding levels per household, these are:
 - a. **Local Authority Delivery Phase 3 (LAD 3)** - delivering upgrades to low-income households in the most energy inefficient homes that are on the gas grid. The main criteria for on-gas grid properties will remain the same as those in the first two phases of LAD, including the cost caps for owner occupier and rented properties, along with landlord contributions. This means that on-gas grid homes can be upgraded to the value of £10,000 for owner occupiers, while rented properties can receive up to £5,000 with the landlord being required to contribute at least a third of the cost for rented properties.
 - b. **The Home Upgrade Grant Phase 1 (HUG1)** - Supporting low-income households by upgrading the most energy inefficient off-gas grid homes in England. Targeted funding will support the installation of multiple measures in these homes, which can face higher upgrade costs to substantially improve their energy performance. This funding will enable low carbon heating and energy efficiency measures to be installed in some of the hardest to treat housing, with landlords required to contribute at least a third of the cost. Whilst the exact funding to be available per home is still to be confirmed, an indicative level per home for HUG1 has been outlined based on the energy efficiency level of the property and existing heating source ranging from £10,000 for electrically heated EPC D rated properties to £25,000 for F-G rated oil/solid fuel/LPG heated properties.
4. Fuel poverty remains a significant issue in Herefordshire, with an estimated 13,902 (16.5%) households thought to suffer from fuel poverty across the county.

5. Fuel poverty levels in the county are a result of a combination of low incomes, above average numbers of older, 'hard to treat' properties and poor coverage of the mains gas network, due to rurality.
6. Many homes in the county therefore rely on expensive heating fuel systems and as a result have poor energy efficiency ratings and high relative greenhouse gas emissions. There are an estimated 60,000 properties Energy Performance Certificate (EPC) rated D to G (Building Research Establishment, 2019) in Herefordshire.
7. The Sustainable Warmth fund aims to raise the energy efficiency of low-income and low EPC rated homes including those living in the worst quality off-gas grid homes, delivering progress towards: reducing fuel poverty, the phasing out of high carbon fossil fuel heating and the UK's commitment to net zero by 2050. The fund also aims to support the green recovery in response to the economic impacts of Covid-19 and to help take low-income families out of fuel poverty.
8. The latest phase of the funding was launched on 16 June 2021 as a competition. MEH have been successful for a regional bid from the Sustainable Warmth Competition to access funding as part of Phase 3 of the LAD and HUG (Home Upgrade Grant, phase 1) which will to run from January 2022 to March 2023.
9. The project model and its administration through Midlands Energy Hub (MEH), which is how the Phase 2 project is being delivered, is deemed a more considered delivery model than has taken place under Phase 1a, in particular:
 - a. Optional Contract procurement using a call-off via the central MEH Dynamic Purchasing System (DPS), which allows for continued provision from Phase 2 into Phase 3 of the scheme. This is in line with the Council's contract procedure rules;
 - b. Customer facing partners are separately procured by MEH- making partner working with the designated organisation much more transparent and less complicated;
 - c. Funding under the Sustainable Warmth Fund project would be drawn-down as required, claimed funding will therefore be more closely aligned to spend and delivery.
10. Local Authorities are responsible for delivering their allocation including submitting a proposal and identifying areas for the designated customer journey support partner to target. The customer support service provided as part of the MEH bid will support the council within defined areas and inform residents of the process as well as providing a single point of contact and support. The service will check household eligibility, answer questions on the scheme and energy efficiency measures, register any complaints as well as provide additional support to help tackle fuel poverty, for example income maximisation and tariff switching. This service under Green Homes Grant (GHG) LAD 2 is provided by Severn Wye Energy Agency
11. Planned delivery for the Sustainable Warmth Competition is intended to mirror and build on Phase 2. MEH have informed the council of our indicative capital allocation, which reflects the number and proportion of EPC Band E, F and G properties within a Local Authority area, following the same process of Phase 2. These allocations may be

subject to change pending final approval from the Department for Business Energy and Industrial Strategy (BEIS).

12. Timescales and deadlines for the project have been informed as follows:

Date	Event
Dec 2021	Confirmation to MEH if bid successful and total award
Jan 2022	Award letters issued to LA's with finalised allocation
Jan – March 2022	Mobilisation funding released to LA's to conduct required survey work and proposal development
	DPS's and in house support available to procure accredited installers
April 2022– March 2023	Delivery of LA or Consortium projects

13. Following the successful MEH bid to BEIS, the project proposal, is currently being developed, however the following project approach is envisaged:

- a. Household eligibility will be based on:
 - i. EPC rating of properties - only D, E, F or G homes will qualify with the exception of Park Homes, which do not require an EPC.
 - ii. Where no EPC exists, pre-install EPCs will be commissioned through the customer journey support partner, funded direct by MEH.
 - iii. Combined household income of no more than £30k gross, before housing costs, and linked to either:
 1. Existing Energy Company Obligation (ECO) means-tested benefits as a proxy or;
 2. Use existing Council set and publicised criteria and processes to gather evidence of household income. These are set out in the council's Statement of Intent (Appendix C).
- b. The project will aim to fund energy efficiency and renewable heating measures across tenures from the social and private rented sectors to privately owned households and park homes. We will engage with partners from these sectors to identify eligible properties and maximise delivery potential.
- c. Project promotion and targeting is planned in conjunction with the customer facing partner via the following routes and in order to reach an estimated 150 households:
 - i. Targeted social media posts, informed by compiled data such as deprivation, fuel poverty, energy performance of property and fuel type;
 - ii. Existing networks and established referral routes, such as Herefordshire Talk Community, Social Prescribing teams and Energy Advocate officer roles as well as other Herefordshire Affordable Warmth Network partners such as housing associations, Fire & Rescue service and community organisations.

iii. Information and leaflet distribution through Parish Councils and in council planned mail-outs and private landlord correspondence.

14. As per the current GHG LAD 2 project, installed measures will focus on replacing broken and inefficient heating systems, particularly in off-gas areas with renewable, air source heat pump (ASHP) systems as well as insulation measures (internal and external solid wall, under-floor, room-in-roof etc.), double glazed windows and insulated doors, high efficiency storage heaters, solar thermal/PV. These measures are often not feasible under other funding streams and are measures that complement each other from a whole-house perspective, which is a central ambition of the proposed scheme.
15. These eligible measures are compatible with the Standard Assessment Procedure (SAP) that will help improve EPC band D, E, F or G rated homes.
16. Fossil fuel heating systems are not an eligible measure through the scheme i.e. gas, oil, LPG and solid fuel systems.
17. It is proposed that the council takes up the full amount of funding allocated and targets 150 households at an average of £14,800 per home across the project. This funding amount per household is significantly higher than the previous two LAD schemes and is reflective of the increased funding levels for rural properties through this funding. The amount per property indicated does not include administrative and ancillary costs.
18. The proposed procurement approach for this project is to be determined, however the Midlands Energy Hub (MEH) central Dynamic Purchasing System (DPS), which we are utilising for GHG LAD 2 includes scope to extend call-off contracts if funding is available for the Sustainable Warmth Fund. This would be subject to the contractor's performance under GHG LAD 2 and is in line with the council's contract procedure rules.
19. Scheme compliant local installers have been sign-posted to this DPS and any relevant tender exercise will incorporate the council's social value procurement principles in order to encourage these suppliers to tender for work on the project and improve local value.
20. £222,000 of allocated funding is designated for administration and ancillary costs for the following, some of which would be capitalised:
 - a. Project management, reporting, administration, and governance costs;
 - b. Building works to prepare for install – for example damp-proofing and scaffolding;
 - c. Retrofit assessment and coordinator costs, as required through the scheme;
 - d. Additional resident targeting, low-income verification and sign-up including lead generation and communication activities.
21. It is envisaged that some of these works would be tendered for, either as part of the main procurement or through the professional services part of the MEH DPS that covers professional services such as project management, retrofit assessments, coordination and energy performance certificates (EPCs).

22. Evaluation of the scheme will be facilitated by MEH, with appropriate data sharing arrangements put in place to facilitate this as per the current GHG LAD Phase 1a and 2 projects.

Community impact

23. In accordance with the adopted code of corporate governance, the council is committed to promoting a positive working culture that accepts and encourages constructive challenge and recognises that a culture and structure for scrutiny are key elements for accountable decision making, policy development and review.
24. This project will contribute towards the following local and regional strategic priorities, targets and legislation:
- a. Herefordshire Council County Plan (2020-24)
 - i. Environment - Protect and enhance our environment and keep Herefordshire a great place to live
 - 1. Improve the energy efficiency of homes;
 - ii. Community - Strengthen communities to ensure that everyone lives well and safely together;
 - 1. Reduce the number of households living in fuel poverty.
 - iii. Economy - Support an economy which builds on the County's strengths and resources
 - 1. Spend public money in the local economy wherever possible.
 - b. Herefordshire Council Corporate Delivery Plan 2020-2022
 - i. EN4.2: Develop new domestic building retrofit programmes to further improve the energy efficiency of Herefordshire's housing stock, reducing carbon emissions, improving wellbeing and tackling fuel poverty.
 - c. Herefordshire Health & Wellbeing Strategy
 - i. Priority three - For older people (quality of life, social isolation, fuel poverty);
 - ii. Priority four - Impact of housing (fuel poverty and poverty and the impact on health & wellbeing).
 - d. Executive Response to the Climate Emergency;
 - e. Air Quality Strategy for Herefordshire and Worcestershire.
25. The funding aims to support low income households living in the least energy efficient homes (those rated EPC band E, F or G). This will help deliver progress towards:
- The statutory fuel poverty target for England;
 - The phasing out of the installation of high-carbon fossil fuel heating and reducing air quality emissions;

- The UK's target for net zero by 2050.

Environmental Impact

26. This decision / proposal seeks to deliver the council's [environmental policy commitments](#) and aligns to the following success measures and priorities in the County Plan:
- Reduce the council's carbon emissions;
 - Work in partnership with others to reduce county carbon emissions;
 - Improve the air quality within Herefordshire;
 - Improve energy efficiency of homes.
 - En3- Build understanding & support for sustainable living;
 - En4- Invest in low carbon projects;
27. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
28. This proposal seeks to deliver the council's environmental policy commitments and aligns to the following success measures in the County Plan by:
- a. Working in partnership with project partners to reduce county carbon emissions by the installation of energy efficiency and heating measures in fuel poor homes;
 - b. Improve the air quality within Herefordshire by replacing fossil fuel heating systems such as oil and LPG as well as reducing emissions through reduced energy use.
29. The environmental impact of this proposal has been considered through the service specification and includes appropriate requirements on the contractor/delivery partner to minimise waste, reduce energy and carbon emissions and to consider opportunities to enhance biodiversity. This will be managed and reported through the ongoing contract management. The commissioning will aspire to utilise local suppliers, improve local air quality and reduce energy usage.
30. The development of this project has sought to minimise any adverse environmental impact and will actively seek opportunities to improve and enhance environmental performance.

Equality duty

31. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
32. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. Our providers will be made aware of their contractual requirements in regards to equality legislation.
33. By adopting the proposal the council is being proactive in discharging its equality duty as the scheme will target fuel poor households, many of which will share a protected characteristic for example elderly and/or disabled residents. The proposal will also ensure that householders are treated equitably when seeking to access the scheme.

Resource implications

34. Resource implications to the council will be met through existing officer time and will be supported by the £222,000 of allocated funding designated for administration and ancillary costs. It is proposed that some of this is used for Programme Management Office support.
35. There are no IT or HR implications from this project.
36. There is no capital match contribution required from the council.
37. As these are grants awarded to household improvements across the County there are no ongoing revenue implications to the council. This is fully funded from the external grant awarded to the council.

Revenue or Capital cost of project (indicate R or C)	2019/20	2020/21	2021/22	Future Years	Total
Project Capital (C)- surveys, measure installs and ancillaries (enablement)	£000	£000	£000	£2,220,000	£2,220,000
<i>Project revenue (R)- Project management, delegated grants, PMO support, admin and marketing</i>			£000	£222,000	£222,000
TOTAL			£000	£2,442,000	£2,442,000

Funding streams (indicate whether base budget / external / grant / capital borrowing)	2019/20	2020/21	2021/22	Future Years	Total
Home Upgrades Grant (HUG) Capital	£000	£000	£000	£1,725,000	£1,725,000
<i>Home Upgrades Grant (HUG) Admin</i>				£172,500	£172,500
<i>Local Authority Delivery (LAD) 3 Capital</i>				£495,000	£495,000
<i>Local Authority Delivery (LAD) 3 Admin</i>				£49,500	£49,500
TOTAL				£2,442,000	£2,442,000

Legal implications

38. The council has powers under sections 1-4 of the Localism Act 2011 to accept grant funding for the project and apply it to the identified households in Herefordshire. The council will be required to defray the grant funding in accordance with the grant agreement to be entered into with Midlands Energy Hub. Legal Services will review the grant agreement before it is completed and to ensure that it does not contain any unusual or onerous terms and conditions.

39. The use of the MEH DPS is in accordance with the council's contract procedure rules and will support the council's general duty to secure best value set out in s3 of the Local Government as those suppliers on the DPS will have been through a pre-qualification and assessment.

Risk management

40. Accepting GHG LAD Funding and project implementation will help to mitigate against fuel poverty in Herefordshire as well as reducing household carbon emissions. This could have a wide variety of benefits to householders such as reduced fuel bills, warmer and healthier homes as well as showing leadership from the council in this area and could lead to further opportunities to leverage funding.

41. If funding is not accepted then the council and its existing partners in this area will continue to support fuel poor households and carbon reduction through advice and access to other funding streams as well as exploring opportunities for additional funding for related activity and measures.

Risk / opportunity	Mitigation
<p>The council is responsible for ensuring grant funds are allocated in line with the terms of the grant agreement.</p>	<p>Appropriate project/contract management, procurement and Governance put in place with partners to ensure they are working to the same terms of funding.</p>
<p>Putting appropriate delivery mechanisms in place in order to realise targets</p>	<p>GHG LAD 2 install contract to be varied if service/value for money maintained to ensure continuity, while measures outside of scope are procured through MEH Dynamic Purchasing System (DPS)</p>
<p>Demanding delivery timescales and identification of suitable properties</p>	<p>Council and partners to identify initial potentially eligible and suitable properties in advance of delivery via awareness raising, targeting and stakeholder (private/social landlords, householders) engagement. Further householder targeting will continue through the initial phase of the project utilising case studies to publicise the scheme.</p>
	<p>Due to the challenges experienced in the current and previous phases of our funding delivery project (LAD 1a and 2) it is proposed that some of the project management budget for the Sustainable Warmth project is utilised to fund internal PMO support.</p>
	<p>We will continue to engage with local housing associations (HA's) to explore opportunities for them to utilise the funding. HA's have good knowledge and information of their own stock and therefore have a number of households that they can approach immediately. 35 properties are targeted via this route.</p>

42. These risks will be managed at service level and reviewed via monthly project meetings.

Consultees

43. The project proposal is being developed in conjunction with current LAD project partners, Severn Wye Energy Agency and will also be informed by discussions with local housing providers and environmental health (Housing) officers.
44. The Cabinet Member Environment and Economy has been briefed and is supportive of the proposals
45. The Political group consultation has taken place and no further comments were received.

Appendices

- Appendix A – Sustainable Warmth Competition Guidance

Background papers

- None identified

Report Reviewers Used for appraising this report:

Governance	Sarah Buffrey, Democratic Services Officer	Date 07/01/2022
Finance	Karen Morris, Strategic Capital Finance Manager	Date 17/12/2021
Legal	Alice McAlpine, Senior Solicitor	Date 08/02/2021
Communications	Luenne Featherstone, Communications Manager	Date 29/12/2021
Equality Duty	Carol Trachonitis, Head of Information Compliance & Equality	Date 21/12/2021
Procurement	Mark Cage, Commercial Services Manager	Date 22/12/2021
Risk	Kevin Lloyd, Performance Team Lead	Date 04/01/2022

Approved by	Ross Cook, Corporate Director Economy & Environment	Date 16/03/2022
-------------	---	-----------------

Please include a glossary of terms, abbreviations and acronyms used in this report.

- Green Homes Grant Local Authority Delivery (GHG LAD)- Government funded scheme to raise the energy efficiency of low-income and low EPC rated homes including those living in the worst quality off-gas grid homes, delivering progress towards: reducing fuel poverty, the phasing out of high carbon fossil fuel heating and the UK's commitment to net zero by 2050. The fund also aims to support the green recovery in response to the economic impacts of Covid-19 and to help take low-income families out of fuel poverty.
- Midlands Energy Hub (MEH) - Government funded, cross Midland LEP support organisation to identify and deliver local energy strategies and projects.
- Keep Herefordshire Warm (KHW) - Herefordshire Council commissioned affordable warmth service offering advice and support to residents, provided by Severn Wye Energy Agency (SWEA).
- Air Source Heat Pump (ASHP) - Renewable heating technology that utilises an electric heat pumps to generate heat from external air in order to heat buildings and water.
- Solid Wall Insulation (SWI) - Insulation material that is applied onto the inside or outside of a building to reduce heat loss.
- Memorandum of Understanding (MOU) - Agreement between project parties to set out working relationships and procedures.
- Dynamic Purchasing System (DPS)- Public procurement compliant framework like agreement onto which suppliers can join up to at any time providing they meet set criteria by the managing organisation (MEH)
- Building Research Establishment (BRE) - Independent organisation concerned with improving the quality and sustainability of buildings through research.
- Energy Performance Certificate (EPC) - Certificate issued by an independent energy assessor, which represents the energy performance of the building (asset) based on its fabric and installed building services (heating, cooling, ventilation and lighting) only.
- Standard Assessment Procedure (SAP) - methodology used by the Government to assess and compare the energy and environmental performance of dwellings. Its purpose is to provide accurate and reliable assessments of dwelling energy performances that are needed to underpin energy and environmental policy initiatives (<https://www.gov.uk/guidance/standard-assessment-procedure>, 10/05/21)
- Energy Company Obligation scheme (ECO) - UK Government energy efficiency scheme to help reduce carbon emissions and tackle fuel poverty.
- Housing Associations (HAs) - Registered providers of social housing