

## CABINET MEETING –7 DECEMBER 2011

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Approval to proceed with the European Regional Development Fund (ERDF) project – Low Carbon Social Housing Pilot

**Author(s):**

Report of the Executive Director of Commercial and Corporate Services and the, Executive Director of Health, Housing and Adult Services

**Purpose of Report:**

The purpose of this report is to ask Cabinet to approve the delivery of the project and funding package and to agree project management, partnership and procurement arrangements.

**Description of Decision:**

Cabinet is asked to:

- To agree that the Low Carbon Energy project proceeds as planned in the ERDF Business Case
- To agree that the Council is applicant and accountable body for the project and acts as project manager
- To agree that the Council draws up partnership and contract delivery arrangements with the project partners (the Registered Social Landlord and the Distribution Network Operator) and sub-contractors where appropriate
- To agree that the Council procures a supplier or consortium of specialist training services for the targeted SMEs currently estimated between £200-£300k
- To agree to the procurement of other appropriate services, including external project evaluation, energy audit and community consultation work

**Is the decision consistent with the Budget/Policy Framework? YES****If not, Council approval is required to change the Budget/Policy Framework****Suggested reason(s) for Decision:**

Cabinet approval is being sought as the project involves the management of external funding of more than £250,000. Approval is also required for the project management, procurement and partnership arrangements.

**Alternative options to be considered and recommended to be rejected:**

Four alternative options have been considered as follows:

Do nothing - This option has been rejected as it does not contribute to local carbon reduction targets, business development opportunities or the deployment of renewable energy innovations.

Reduce the scale of the project - This option has been rejected because of its more limited contribution to reducing carbon emission levels and its inability to adequately develop the capacity and skills of local SMEs.

Increase the scale of the project - This option is rejected due to the inability to secure additional match funding.

An alternative delivery model - This option is rejected as this delivery method would not be

able to deliver the combination of outputs, research, training and deployment activities that the project proposes.

**Is this a “Key Decision” as defined in the Constitution?**                      **Yes**

**Is it included in the Forward Plan?**  
**Yes**

**Relevant Scrutiny Committee:**

Prosperity and Economic Development  
Scrutiny Committee

## **CABINET –7 DECEMBER 2011**

### **Report of the Executive Director of Commercial and Corporate Services and the Executive Director Health, Housing and Adult Services**

#### **1.0 Purpose of the Report**

- 1.1 The purpose of this report is to ask Cabinet to approve the delivery of the project and funding package and to agree project management, partnership and procurement arrangements.

#### **2.0 Description of Decision (Recommendations)**

2.1 Cabinet is asked:

- To agree that the Low Carbon Energy project proceeds as planned in the ERDF Business Case
- To agree that the Council is applicant and accountable body for the project and acts as project manager
- To agree that the Council draws up partnership and contract delivery arrangements with the project partners (the Registered Social Landlord and the Distribution Network Operator) and sub-contractors where appropriate
- To agree that the Council procures a supplier or consortium of specialist training services for the targeted SMEs currently estimated at £200-£300k
- To agree to the procurement of other appropriate services, including external project evaluation, energy audit and community consultation work

#### **3.0 Background**

- 3.1 The project has been developed under Priority 1 of the ERDF programme, in order 'to support the application and testing of innovative energy efficiency and renewable energy measures in existing social housing'. This call was unusual in that it directed ERDF resources at social housing properties; nevertheless, the benefits still have to be focused on support for SMEs. It has taken considerable time and consultation to develop a project that meets the criteria.
- 3.2 The project will deliver a low-carbon social housing exemplar in Sunderland, by focusing on the trialling and deployment of a range of energy saving and low carbon technologies in hard to treat social housing. The technologies will be tested and deployed in a cluster of approximately 100 social houses on the Hylton Lane Estate, which is owned and managed by Home Housing, that meet the tightly defined criteria of the project and are suitable for the installation and monitoring requirements of all partners. Details of the actual properties along with the measures they will benefit from are subject to detailed survey work that forms part of the initial phase of the project.
- 3.3 The project will also develop the capacity and expertise of SMEs in the renewable energy and technology sector and its supply-chain, through a package of training and support. This will enable businesses to respond to the increased demand in the application of innovative domestic energy measures.
- 3.4 Sunderland's project is only one of two in the region that has been given an ERDF approval. No other local authority is leading on a project under this competitive call for proposals.
- 3.5 The value of the project is therefore significant not only in its contribution to the low carbon economy, but in terms of raising the profile of the City Council and its partners in developing flagship projects. In

addition, it will also develop the skills and expertise of staff involved in developing and delivering low carbon initiatives.

3.6 The project is structured around 3 work packages, as follows:

- **Work Package 1: Project management, survey and feasibility work, monitoring, evaluation and dissemination**  
This will involve a range of activities including community engagement activities, energy surveys, a research study, and feasibility work to identify the appropriate technologies to be tested and installed. In addition, it will involve ongoing engagement with householders to record their energy use, experiences and behaviours.
- **Work Package 2: SME engagement, demand stimulation and diversification**  
This work package will target SMEs, primarily in the construction and installation sector, with the aim of training them to achieve the Micro-generation Certification Standard and thereby improving their workforce skills and business competitiveness in the growing micro-renewable energy sector.
- **Work Package 3: Deployment, purchase and installation of technologies**  
This work package will concentrate on designing, procuring, testing and deploying the technologies in the targeted hard to treat properties. The types of measures to be installed are likely to include:
  - Solar PV
  - Heat Pumps
  - New voltage control relays
  - New/additional voltage control devices
  - New dynamic thermal rating monitors
  - New energy storage devices
  - Use of smart meters to provide data in operational and planning timescales
  - New communication channels between smart meters and network controllers

#### **4.0 Current Position**

- 4.1 Following submission of the full Business Case on 29 October 2010, ONE North East undertook a full appraisal of the project. The project was approved by the Heads of Team on 13 December 2010 on condition that the funding and partnership agreements are confirmed prior to the project starting.
- 4.2 As a result of delays in the confirmation of partner funding the practical project start date is yet to be determined.. However, funding can be claimed retrospectively for any eligible expenditure incurred since 1 April 2011. Following these changes a revised timetable has been provided to the Department for Communities and Local Government. It is now anticipated that the project will be completed by 31 March 2014. Match funding from the Low Carbon Networks Fund has been approved and confirmation of Home Group's contribution was received on 4 October 2011.

#### **5.0 Reasons for the Decision**

- 5.1 Cabinet approval is being sought as the project involves managing external grant support of more than £250,000. Approval is also required for the project management, procurement and partnership arrangements.

#### **6.0 Alternative Options**

- 6.1 A full options analysis is included in the project's Business Case for ERDF funding. The options below have been considered as part of this analysis.

- 6.2 One alternative option would be to do nothing. This would result in leaving social housing landlords to implement energy efficiency measures including renewables and to not support local business diversification and skills training in micro-renewables. The main disadvantages of this option are that work is unlikely to be undertaken and where it is, not to directly benefit local and regional businesses. This option would not help the city to meet the carbon reduction targets. This option has been rejected as it will not attract over £2.2m of external grant funding to the City. In addition, it does not contribute to local carbon reduction targets, business development opportunities or the deployment of renewable energy innovations.
- 6.3 A further alternative option would be to reduce the scale of activity by targeting a smaller number of social housing properties. The main disadvantages of this option is its more limited contribution to carbon reduction targets, fewer more expensive outputs, limited ability to trial and test a range of technologies in different housing and household types, and reduced capacity to deliver. In addition, if scale of delivery was reduced outcomes and outputs would suffer disproportionately (higher average unit cost per output achieved), fewer SMEs could be supported, and fewer properties could be targeted. This option is rejected because of its more limited contribution to reducing carbon emission levels and its inability to adequately develop the capacity and skills of local and regional SMEs.
- 6.4 Another alternative option would be to increase the scale of activity allowing the project to extend the trials to a larger and wider range of properties. This would allow the project to engage with a larger number of SMEs thereby delivering greater economies of scale. It would offer improved value for money as a result, although doubling the number of target properties would require additional match funding to complete the funding package. The amount of funding sought is the main obstacle to the project going ahead at this level. Given the current financial climate identifying additional match funding for this type of initiative is unlikely. This option therefore is rejected due to the inability to secure additional match funding.
- 6.5 A final option that has been considered would be to deliver the project using an alternative delivery method. This would result in limited council and public sector input, and would not develop SME capabilities. The City Council and its partners would have no control over the geographical focus or technological mix of the energy applications. In the current financial situation it is unlikely that this project would go ahead at all and the ability to secure and manage ERDF would be jeopardised. This option is rejected as it would not be able to deliver the combination of outputs, research, training and deployment activities that the specification requires.

**7.0 Relevant Considerations / Consultations**

- (a) **Financial Implications:** The total cost of the project is £2,262,232. The funding package would comprise:
- ERDF £1,131,116
  - Home Group £572,015
  - CE Electric (Low Carbon Network Fund) £500,000
  - Sunderland City Council (officer time) £59,101

ERDF grant will provide up to 50% of the project’s eligible costs. There is no additional cost to the Council. In the event that all indicative funding is not confirmed, revised proposals will be presented to Cabinet at a future meeting.

The following table shows indicative costs:

<b>Work Package 1</b>	<b>Cost</b>
Technical feasibility work, energy audits, consultation, project management, smart meter and voltage control installation, and research and energy usage monitoring (to be led by CE Electric)	£530,000

Project evaluation	£25,000
Personnel costs including Senior Programmes and Projects Officer, Programmes and Projects Officer, Home Energy Coordinator, Legal, Procurement, Finance, travel, training	£126,313
Other costs including meeting costs, publicity and dissemination	£12,500
<b>Work Package 2</b>	
Skills and training needs analysis	£7,500
Awareness seminar and recruitment programme	£17,154
Marketing and recruitment	£3,686
Project Management	£42,959
Specialist Training, Accreditation/Certification	£246,000
<b>Work Package 3</b>	
Micro-renewable technologies and installation costs	£1,216,853
Showcase energy demonstration home	£34,266

- (b) **Risk Analysis:** A full risk analysis has been completed as part of the ERDF Business Case including considering risks such as slow progress towards the achievement of outputs, duplication, failure to secure funding and lack of cohesion between partners. The risk register will be reviewed on a monthly basis by the project steering group.
- (c) **Employee Implications:** The project will be managed by Housing Services with support from the Financial Resources Team. It estimates that the City Council will provide a contribution of £59,101 in officer time over the period 01 April 2011 to 31 March 2014. The level of project management support is less than one full-time equivalent post and is deemed appropriate to the size of grant. Additional support will also be required from Legal, Procurement and Finance colleagues. These costs have also been included in the project's budget.
- (d) **Legal Implications:** various meetings have taken place with colleagues in Legal and Procurement to discuss the partnership, governance and procurement arrangements and to agree the most appropriate approach. All procurement undertaken will comply with EU and Council procedures.
- (e) **Policy Implications:** The project will contribute to the delivery of Aim 2 of the City's Economic Masterplan - 'a national hub of the low-carbon economy' - as well as addressing fuel poverty and contributing to national and local carbon reduction targets. In addition, the project will provide a test-case for developing the energy supply and use model for low carbon communities, as well as preparing the city and its partners for future opportunities such as the Community Energy Saving Programme, the ELENA initiative and Green Investment Bank. The results, evaluation activities and lessons learned will be used to present holistic solutions that are readily transferable to other communities across Sunderland and the UK. The project will directly contribute to the City's Climate Change Action Plan and Covenant of Mayors 2020 targets.
- (f) **Implications for Other Services:** The project has been developed jointly across two of the council's service areas. Information will be available on the intranet to advise Services of the project with contact details provided for any Service that wishes to work more closely with the project.
- (g) **The Public:** The project will work with Home Group, a Registered Social Landlord with properties and tenants in Sunderland, and CE Electric (the Distribution Network Operator for the North East of England). A community engagement plan will be drawn up to raise awareness of the initiative and engage residents in its implementation,

which will include 100 households providing energy data and feedback on renewables installed in their properties.

- (h) **Reduction of Crime and Disorder – Community Cohesion / Social Inclusion:** As above, the community will be consulted on the impact of the low carbon energy techniques as and when appropriate. One of the goals of the project will be to reduce fuel bills thereby contributing to a reduction in fuel poverty in the city.
- (i) **Project Management Methodology:** The project will be managed and monitored using the PRINCE 2 Project Management methodology.
- (j) **Equalities:** An INRA is not considered appropriate for this project. However, a community engagement plan will be an important part of the project.

8. **Glossary**

9. **List of Appendices**

10. **Background Papers**  
ERDF Business Case