

CABINET MEETING – 12 March 2014

EXECUTIVE SUMMARY SHEET – PART I

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Title of Report:	Low Carbon Social Housing Pilot – Biomass District Heating System and Small and Medium Sized Enterprise (SME) Supply Chain Training
Author(s):	Joint Report of the Deputy Chief Executive and Executive Director of People Services
Purpose of Report:	To seek Cabinet approval to progress the delivery of the project, approve the funding package and agree project management, partnership and procurement arrangements.
Description of Decision:	<p>Cabinet is recommended to:</p> <ol style="list-style-type: none"> 1. Agree that the Council is applicant and accountable body for the project and acts as project manager; 2. Agree that the Council enters into partnership and contract delivery arrangements with the project partner (Gentoo) and sub-contractors where appropriate; 3. Agree that the Council procures a supplier or consortium of specialist training services for the targeted Small and Medium Sized Enterprises (SMEs); 4. Authorise the Deputy Chief Executive and Executive Director of People Services in consultation with the Cabinet Secretary to take all necessary steps to procure and deliver the planned activities subject, where appropriate, to relevant grant funding conditions; and 5. Acknowledge the terms of the European Regional Development Fund (ERDF) Final Grant Offer and the requirement to enter into a funding agreement on this basis.
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 managing external grant support of more than £250,000. Approval is also required to progress delivery of the project, approve the funding package and agree the revised project management, partnership and procurement 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 to achieve savings in energy bills for local householders.
- 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 unavailability of additional ERDF and match funding.
- An alternative delivery model - This option is rejected as this delivery method would not be able to deliver the combination of outputs, innovation, research, training and deployment activities that the project proposes.

Impacts analysed;

Equality **Privacy** N/A **Sustainability** N/A **Crime and Disorder**

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

Is it included in the 28 day Notice of Decisions? Yes

Scrutiny Committee

LOW CARBON SOCIAL HOUSING PILOT – BIOMASS DISTRICT HEATING SYSTEM AND SMALL AND MEDIUM SIZED ENTERPRISE (SME) SUPPLY CHAIN TRAINING**JOINT REPORT OF THE DEPUTY CHIEF EXECUTIVE AND THE EXECUTIVE DIRECTOR OF THE PEOPLE DIRECTORATE****1.0 Purpose of the Report**

- 1.1 To seek Cabinet approval to progress the delivery of the project, approve the funding package and agree project management, partnership and procurement arrangements.

2.0 Description of Decision (Recommendations)

Cabinet is recommended to:

1. Agree that the Council is applicant and accountable body for the project and acts as project manager;
2. Agree that the Council enters into partnership and contract delivery arrangements with the project partner (Gentoo Group Limited) and sub-contractors where appropriate;
3. Agree that the Council procures a supplier or consortium of specialist training services for Small and Medium Sized Enterprises (SMEs);
4. Authorise the Deputy Chief Executive and Executive Director of People Services in consultation with the Cabinet Secretary to take all necessary steps to procure and deliver the planned activities subject, where appropriate, to relevant grant funding conditions; and
5. Acknowledge the terms of the European Regional Development Fund (ERDF) Final Grant Offer and the requirement to enter into a funding agreement with the Department for Communities and Local Government (DCLG) on this basis.

3.0 Introduction

- 3.1 The project has been developed in response to a ERDF call for projects that supports the application and testing of innovative energy efficiency and renewable energy measures in existing social housing'. This is the only call within the 2007-2013 ERDF programme that directs resources at social housing properties, while also ensuring that the wider economic benefits are focused on developing the skills and knowledge of local SMEs in the energy industry supply chain.
- 3.2 The project has involved considerable development work, including consultation with residents, to ensure that it meets the programme's criteria and secures the required amount of match funding. The original scheme, which was reported to Cabinet in November 2012, could not be progressed due to a number of factors, including lack of appropriate properties, regulatory changes and commercial reasons. As a result, Home Group decided to withdraw from the project in July 2013 and alternative delivery options were explored with immediate effect.

- 3.3 This revised proposal, working in partnership with Gentoo, will deliver a low-carbon social housing exemplar in Sunderland. It will be the first residential biomass scheme in Sunderland, targeting 97 properties that are currently off-gas and hard-to-treat. The properties are located in Roche and Wenlock Court in the Glebe area of Washington. The site consists of 97 bungalows which are flat roofed 1 and 2 bed properties currently off the main gas network heated by electric night storage heaters with the provision of hot water via an electric immersion tank(see Appendix 1 – Map of Property Locations). The project demonstrates a closer fit with the innovation objective of the original call.
- 3.4 The project proposes to design and install a communal energy centre and district heating network, favourable to biomass for the provision of heat and hot water to the properties. In addition, Gentoo propose to improve the thermal performance of the properties by installing cavity wall insulation and double glazed windows. Consultation with Gentoo customers living within the properties is paramount throughout the design and installation of the works being undertaken, to ensure buy in and successful behavioural changes given the older demographic of the community.
- 3.5 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 local businesses to respond to the increased demand in the take-up of innovative domestic energy measures and create new jobs.
- 3.6 Sunderland's project is only one of two in the region that has been given ERDF approval. 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 Council and its partners in developing and delivering low carbon projects.
- 3.7 Following the changes to the overall scheme location and partnership arrangements, and the focus on biomass rather than more traditional low carbon measures, the project is now structured around 3 work packages:
- **Work Package 1: Project management, survey and feasibility work, monitoring, evaluation and dissemination**
This will involve a range of activities including community engagement, energy surveys, feasibility and evaluation work. In addition, it will involve ongoing engagement with residents to record their energy use, experiences and behaviours. Resident engagement will be led by Gentoo, with support where required from the Council's People Directorate. The Council's People Directorate will be responsible for implementing robust project management arrangements in order to deliver the outputs and milestones within the agreed timeframe. Financial support will be provided by Commercial and Corporate Services.

- **Work Package 2: SME engagement, demand stimulation and diversification**
This work package will target SMEs, primarily in the construction, installation and energy sectors, with the aim of training employees to achieve the Micro-generation Certification Standard (or equivalent) and thereby improving their workforce skills and business competitiveness in the growing micro-renewable energy sector. This work package will be procured by the City Council based on an agreed specification to be drawn up by a project steering group, involving the Business and Investment Team, Strategic Policy and Performance Management, People Directorate, Financial Resources, Corporate Procurement and Gentoo.
- **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 management of the capital works will be coordinated by Gentoo who will be responsible for securing planning permission for the scheme, procuring the equipment, and overseeing installation of the biomass district heating system and associated works. The measures to be installed include:
 - Communal boiler house and district heating infrastructure works
 - Thermal efficiency improvements to windows and doors
 - Pitched roof works

4.0 Current Position

- 4.1 Following a series of revisions to the project's design and funding package over the last 12 months, the project's Business Case has been re-appraised and approved by DCLG. The Funding agreement has been issued by DCLG and detailed plans for the works were submitted by Gentoo in December 2013. Planning approval is being taken to Planning Committee on 25 February 2014. In addition, two Stopping Up Orders have also been submitted for the location of the boiler house.
- 4.2 The project will commence delivery following Cabinet approval, however, funding can be claimed retrospectively for eligible expenditure, including development and design works, incurred since 1 April 2011. It is anticipated that the project will be completed by 30 June 2015.
- 4.3 The design of the scheme is nearing completion. Gentoo will be responsible for all maintenance requirements for the system once operational. The biomass boiler has the capability to use wood chips or pellets, giving flexibility on how Gentoo sources the fuel for the system. Where feasible the most sustainable fuel source will be secured.
- 4.4. Plans for the procurement of the equipment and associated works are underway, with the first appointments likely to be made in March / April 2014. It should be noted that all works and services must comply with EU Procurement Regulations.
- 4.5 Consultation with each resident was undertaken by Gentoo in November 2013 to discuss the improvement works and possible disturbance issues, and gather energy usage data. This was followed up with a newsletter to each customer. Customer engagement will continue as the scheme progresses, actively involving a number of customers to act as Customer Champions who will help with communication before, during and after the works are complete. Plans for monitoring and evaluating energy usage once the system is operational are also being explored.

4.6 Local Elected Members have been made aware of the scheme and are supportive of it.

5.0 Alternative Options

5.1 A full options analysis has been undertaken as part of the detailed Business Case for ERDF funding and is summarised below.

5.2 The first option would be to do nothing. This option has been rejected as it will result in £1.13m ERDF and a total investment of £2.38m being lost to the City. It would also halt the development of a low carbon demonstration project, which would otherwise deliver significant carbon reductions and enable local businesses to benefit from this investment and improve their position in this market.

5.3 A second option would be to reduce the scale of activity by targeting fewer social housing properties. The main disadvantages of this option would be its more limited contribution to carbon reduction targets, fewer more expensive outputs, limited ability to install a biomass heating system of this scale, and a reduced capacity to deliver. In addition, if scale of delivery was reduced, outcomes and outputs would suffer disproportionately (because of the higher average unit cost per output achieved), fewer SMEs would be supported, and fewer properties could be targeted. This option is therefore rejected because of its more limited impact on carbon emission reductions and the difficulty in delivering a viable scheme.

5.4 A third option would be to increase the scale of activity allowing the project to extend its reach 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. This option therefore is rejected due to additional match funding not being available.

6.0 Relevant Considerations / Consultations

- (a) **Financial Implications:** The estimated total cost of the project is £2,382,002. The funding package comprises:
- ERDF £1,131,116 (approved)
 - Gentoo £1,140,000 (approved)
 - Northern Powergrid (officer time) £37,800
 - Sunderland City Council (officer time) £73,086

ERDF grant will provide 47.5% of the project's eligible costs. There is no additional cost to the Council.

The following table provides a summary of indicative costs:

Work Package 1	Cost
Design and project management	£222,002
Consultation and monitoring	£60,000
Project evaluation	£10,000
Work Package 2	
Specialist SME training	£190,000
Work Package 3	
Biomass District Heating system	£850,000
Heating and hot water replacements to properties	£900,000
Thermal efficiency works to properties (windows, cavity wall insulation)	£150,000
Total	£2,382,002

- (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. Within Work Package 1, regular checks will be undertaken to ensure that management of the project complies with ERDF regulations as part of the funding agreement with Gentoo.
- (c) **Employee Implications:** The project will be managed by the Executive Director of the People Directorate, with support from the Head of Housing Support and Community Living. Additional support will be required from Financial Resources, Corporate Procurement, Business Investment and Strategic Policy and Performance Management. It is estimated that the City Council will provide a contribution of £73,086 in officer time from April 2011 to June 2015. The level of project management support is less than one full-time equivalent post and is appropriate to the size of grant. The cost of legal, procurement and finance advice have been included in the project's budget.
- (d) **Legal Implications:** the proposal reflects detailed consideration of the planning, partnership, governance and procurement options to agree the most appropriate approach. All procurement undertaken will comply with EU and Council procedures. The Council's Corporate Procurement and Legal Teams have been consulted on the proposed procurement arrangements and funding agreements. Suitable legal arrangements will be entered into with Gentoo to ensure each partner delivers their outputs and milestones within the agreed timeframe. Planning approval for the scheme is scheduled to be secured on 26 February 2014.

- (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 Council and its partners for future external funding opportunities. The results, evaluation activities and lessons learned will be used to present holistic solutions that are readily transferable to other communities in Sunderland and to demonstrate the city's progress to wider audiences. 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 by two of the council's service areas. Other services will be involved as appropriate.
- (g) **The Public:** The project will work with Gentoo, the main Registered Social Landlord in Sunderland, and the residents directly benefiting from the scheme. Led by Gentoo, the plans for community engagement are already well underway. This work will continue during the project's implementation and beyond to ensure that residents fully benefit from the improved heating system and thermal efficiency measures. A project evaluation will be undertaken to assess feedback on the scheme and ensure that early lessons are captured and disseminated. Energy usage and behaviour will continue to be monitored by Gentoo for an agreed period of time.
- (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 measures as and when appropriate. One of the underlying goals of the project will be to reduce fuel bills and contribute to a reduction in fuel poverty in the city.
- (i) **Project Management Methodology:** The project will be managed and monitored using the council's project management methodology.
- (j) **Equalities:** All residents will be provided with training and support through the community engagement plan to ensure that the measures installed in their houses are appropriate to their needs and circumstances.

7.0 List of Appendices

Appendix 1 - Map of Property Locations

8.0 Background Papers

None