Sunderland City Council

Item No. 10

CABINET MEETING – 7 NOVEMBER 2012

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:
European Regional Development Fund (ERDF) project – Low Carbon Social Housing Pilot

Author(s):
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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 explained in this report
- To agree that the Council is applicant and accountable body for the project and acts as project manager
- To agree that the Council enters into 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 Small and Medium Sized Enterprises SMEs currently estimated at between £250,000-£300,000
- 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 to achieve savings in energy bills for some 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 the additional match funding that would be required.

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.

Impacts analysed:

Equality [√] **Privacy** [ ] **Sustainability** [ ] **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**

CABINET **7 November 2012**

Report of the Executive Director of Commercial and Corporate Services and the Director of 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 explained in this report
- 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 £250,000-£300,000
- 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 in response to a call for ERDF projects that will "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 and to identify a social housing partner that can also provide match funding for the ERDF.

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 houses that are regarded as hard to treat because of their design or physical condition. The technologies will be tested and deployed in approximately 100 social houses that meet the tightly defined criteria of the project and are suitable for the installation and monitoring requirements of all partners. The tenants of these properties should benefit from a considerable reduction in their fuel bills.

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 and create 23 new jobs.

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, 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 separately or combined will include:
  - Communal Boiler – energy efficient and reduces CO2 emissions
  - Eco Gen CHP boiler - an energy efficient boiler that generates electricity whilst providing heat and hot water for the home
  - Photovoltaic – solar panels and photovoltaic cells that generate electrical power
  - Solar Thermal – a renewable energy system for generating domestic hot water
  - Voltage optimiser – controlled reduction in the voltages received by energy consumer allowing electrical equipment to benefit from optimised supply

4.0 Current Position

4.1 The ERDF grant for the project was approved on 13 December 2010 with an official start date of 01 April 2011 on condition that the funding and partnership agreements were confirmed prior to implementation. This is a pilot project that has required considerable research and technical feasibility work over the past 18 months in order to reach the delivery stage.

4.2 The project will commence delivery following Cabinet approval, however, funding can be claimed retrospectively for any eligible expenditure incurred since 1 April 2011. 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 the Home Group's contribution is expected in November.

4.3 Partners have identified up to 100 properties in Sunderland for investment in energy saving technologies. In addition, approximately 1,000 properties will be offered voltage optimisers. A mapping exercise has been completed to identify which technologies will be appropriate for each property. The target areas now include properties in 5 wards – Silksworth, Ryhope, Pallion, St Annes and Grindon (see Map 1 – Property locations). Consultation with relevant householders will be undertaken by Home Group, in consultation with Members and residents, and full training in using the energy devices will be provided.

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 being sought 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 and is summarised below.

6.2 The first option would be to do nothing. This option has been rejected as it will not attract over £2.2m of external grant funding to the City to develop a coordinated approach to investing in energy reductions and enabling local businesses to benefit from this investment and to improve their position in this market. In addition, it would not contribute to local carbon reduction targets, business development opportunities or the deployment of local renewable energy innovations.

6.3 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 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 (because of the higher average unit cost per output achieved), fewer SMEs could 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 capacity and skills of local and regional SMEs.

6.4 A third 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. This option therefore is rejected due to additional match funding not being available.

6.5 A fourth option would be to deliver the project using an alternative delivery method and not use the availability of ERDF to ensure that it is implemented in Sunderland. The council and its partners would have no control over the geographical focus or technological mix of energy applications and could not ensure that local businesses and householders would benefit from the project. In the current financial climate it is unlikely that this project would go ahead. This option is therefore rejected.

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
- Northern Powergrid (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.

The following table shows indicative costs:

Work Package 1	**Cost**
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 by Durham University	£25,000
Project management, procurement, legal and financial support from the council	£126,313
Other costs including meeting costs, publicity and dissemination	£12, 500
Work Package 2 (to be tendered by the council)	
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
Work Package 3 (to be led by Home Group)	
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. Within Work Package 1, regular checks will be undertaken to ensure that management of the project complies with ERDF regulations as part of the legal agreement with Home Group and Northern Powergrid.

(c) **Employee Implications:** The project will be managed by the Director of Health, Housing and Adult Services with support from the Executive Director of Commercial and Corporate Services. It is estimated 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 appropriate to the size of grant. The costs of legal, procurement and finance advice have been included in the project's budget.

(d) **Legal Implications:** the proposal reflects detailed consideration of the partnership, governance and procurement options 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, Green Investment Bank and regional initiatives to reduce carbon emissions and energy costs. 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 Home Group, a Registered Social Landlord with properties and tenants in Sunderland, and Northern Powergrid, 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 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 technologies installed in their houses are appropriate to their needs and circumstances.

8. Glossary

None.

9. List of Appendices

Appendix 1 - Map 1 – Property Locations.

10. Background Papers

None.