

EXECUTIVE BOARD –20th June

Subject:	European Regional Development Fund (ERDF) bid – deep innovative retrofits
Corporate Director(s)/Director(s):	Andy Vaughan, Executive Directive for Commercial and Operations Gordon Thomson, Director for Energy, Waste and Highways
Portfolio Holder(s):	Councillor Alan Clark, Portfolio Holder for Energy and Sustainability Councillor Jane Urquhart, Portfolio Holder for Planning, Housing and Heritage
Report author and contact details:	Jane Lumb, Head of Energy and Sustainability Policy, 0115 8764786; jane.lumb@nottinghamcity.gov.uk
Subject to call-in:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Key Decision:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Criteria for Key Decision:	
(a)	<input checked="" type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision
and/or	
(b)	Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input type="checkbox"/> No
Type of expenditure:	<input checked="" type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital
Total value of the decision:	up to £6.022M of EU money
Wards affected:	All
Date of consultation with Portfolio Holder(s):	15 th May 2017
Relevant Council Plan Key Theme:	
Strategic Regeneration and Development	<input type="checkbox"/>
Schools	<input type="checkbox"/>
Planning and Housing	<input checked="" type="checkbox"/>
Community Services	<input type="checkbox"/>
Energy, Sustainability and Customer	<input checked="" type="checkbox"/>
Jobs, Growth and Transport	<input type="checkbox"/>
Adults, Health and Community Sector	<input type="checkbox"/>
Children, Early Intervention and Early Years	<input type="checkbox"/>
Leisure and Culture	<input type="checkbox"/>
Resources and Neighbourhood Regeneration	<input type="checkbox"/>
Summary of issues (including benefits to citizens/service users):	
<p>Nottingham City Council, with Nottingham City Homes (NCH), Nottinghamshire County Council, and Derby Homes, wish to submit an ERDF bid for a project which would deliver a step change in warmer and cheaper-to-run homes and public buildings through innovative retrofits.</p> <p>The £6.022m of ERDF money would enable retrofitting up to 250 Nottingham City Council homes in Nottingham to achieve “net zero” energy - much greater energy and carbon savings for tenants that could otherwise be achieved, and fit for 2050 standards. It will also enable us to test the model on 1 public building in Nottingham, again achieving a much greater reduction in energy usage than could otherwise be delivered.</p> <p>We would have to match fund this with £5.4m of Capital Programme currently allocated to be spent on energy projects on council housing over the next 5 years, and £0.3m from the Energy Development Fund and SALIX loans for the public building.</p> <p>The project is focused on areas and properties which require regeneration. This means we will</p>	

enable regeneration, reduction in fuel poverty, and carbon reduction, for the same money that we would have spent to maintain the properties to current standards over a 30 year period.

This should prove UK application of the “energiesprong” model, building on the pilot project currently underway on 9 “2050 homes” in Sneinton, as part of the Remourban project. This would enable significant cost reductions for future retrofits in the UK, with many thousands of the same archetype houses present in the East Midlands alone, and potentially also attract offsite manufacturing facilities to the city with associated low carbon jobs.

The project is likely to receive national interest, boosting the reputation of Nottingham as an ambitious energy city.

The project also supports the Derby-Nottingham Metro Strategy as it includes the retrofitting of some houses owned by Derby Homes. Through collaboration and economies of scale, environmental, economic and social benefits will be brought to both cities.

Staff within Economic Policy and Partnerships will work on the Accountable Body function for this project ensuring compliance with ERDF regulations.

Exempt information: State ‘None’ or complete the following

An appendix to the report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to commercially confidential information and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose this information because it could impact on the procuring of contracts for the works.

Recommendation(s):

- 1** Authorise the Director for Energy, Waste and Highways, Gordon Thomson, to submit a bid for £6.022m (£4.975m for Nottingham City Council schemes and £1.047m for other councils/Arm’s Length Management Organisations (ALMOS) to the European Development Fund (ERDF).
- 2** To amend the HRA Capital Programme to reflect the match funding requirements and earmarked £5.286m from the external wall insulation schemes already approved, to this scheme.
- 3** Note that approximately £310k is earmarked from the Energy Development Fund and SALIX loans to complete this cocktail of funding.
- 4** If the ERDF bid is successful, to authorise the Director of Energy, Waste and Highways to enter into the necessary contracts as described in this report

1 REASONS FOR RECOMMENDATIONS

1.1 The Executive Board is asked to grant permission to apply to ERDF for funding, take forward this project and take all actions necessary to deliver the project, if successful.

1.2 This project would enable up to 250 homes and 1 public building in the city to be radically improved, bring their net energy consumption down to zero, and significantly improve the look and feel of all the buildings and their areas. The level of ambition for this project could not be achieved without 50% of the cost being covered by grant funding, but it is testing a model which could bring down the cost for future projects, bring many more people in future out of fuel poverty, and create low carbon jobs in the city.

1.3 It is also asked to delegate detailed decision making and the signing of related contracts to the Director for Energy Waste and Highways, Gordon Thomson.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 D2N2 have made a call in December 2017 for proposals under their ERDF Priority Axis 4 (Low carbon), following an announcement by the Government that they would guarantee EU funding for ERDF projects signed before the UK's departure from the EU, even when these projects continue after we have left the EU.
- 2.2 Nottingham City Council submitted a bid to the Expression of Interest stage with 4 other partners – Nottingham City Homes, Nottinghamshire County Council, Derbyshire County Council, and Derby Homes. We were notified that we were successful at the expression of interest stage on 25th April, inviting us to submit a full bid by 14th July.
- 2.3 The bid is to take the “energiesprong” deep retrofitting model being piloted on the gold homes of the Remourban project, (last discussed at Exec Board on 21st February 2017), and roll it out to up to 250 homes in Nottingham, along with a some homes in Derby, and one public building each in Nottingham, Nottinghamshire and Derbyshire. The energiesprong model is explained below.

Deep retrofits

- 2.4 NCH's Sustainability Strategy identifies that the existing external wall insulation programme will not enable their homes to meet 2050 standards. Instead, whole house solutions will be needed which will transform their energy usage to net-zero. These are known as deep retrofits. However, these are currently very expensive – around £60,000 per home. Innovation is needed to make them affordable, with offsite manufacturing of external cladding one of the key ways to achieve cost reductions. EU funding is enabling this innovation by part funding pilot and demonstration programmes.
- 2.5 The Remourban project, currently on site in Sneinton, starts this journey by including pilots on 9 “2050 homes”. This proposal is to take this to the next stage by using lessons learned from the Remourban project to carry out whole-building transformations on up to 250 existing houses and 3 public buildings (1 in Nottingham, 1 in Nottinghamshire, 1 in Derbyshire).
- 2.6 The “energiesprong” model would be used, which includes:
- innovative procurement of a whole house retrofit system which achieves a specified performance outcome based on a fixed price
 - a focus on reducing whole life cost including maintenance costs and energy costs for tenants
 - encouraging off-site manufacture, with the aim of bringing down the costs of these deep retrofits, reducing disruption to home owners, and bringing low carbon jobs to the region
 - using an innovative “pay as you save” model which involves the contractors guaranteeing the procured performance for several decades, and the design of an “energy plan” where the resident / building user is charged for their energy plus a fee to contribute towards the works. The total energy plan is

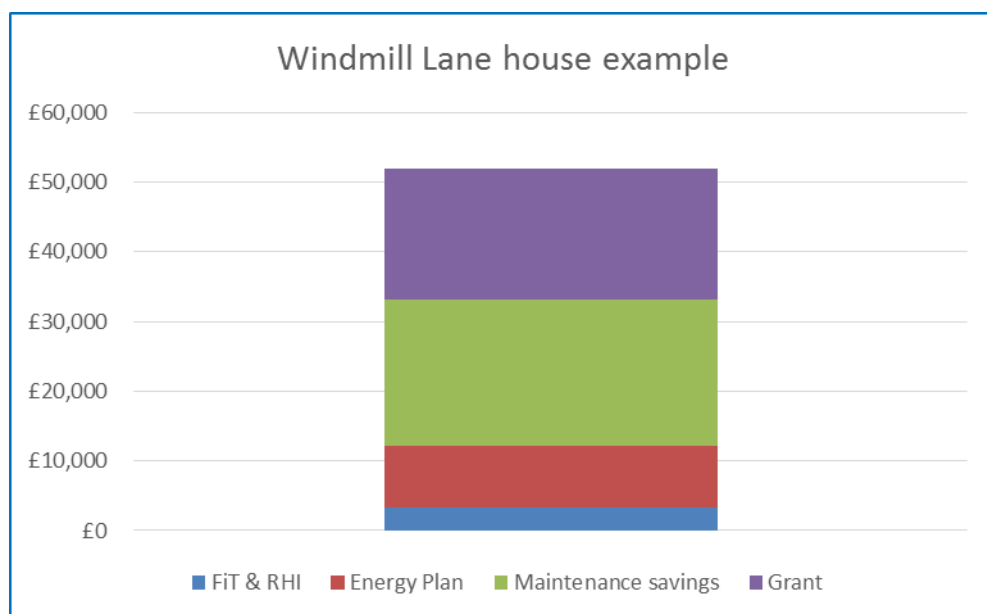
still less than their energy bill before the work but their home/building is more comfortable and better for the environment.

- 2.7 In practice, this means a successful contractor designing an array of different energy measures which will meet the specified performance outcome, fitting them in a short time window, and guaranteeing they will work for a long period.
- 2.8 This energiesprong model has already been proven on houses in the Netherlands and we are in regular discussions with a few other local authorities around the UK who are working together to prove it can work in the UK too.
- 2.9 The use of this model on public buildings is at an earlier stage. It has been piloted on schools in the Netherlands and is currently being tested by Devon County Council on an office in Exeter. The process for selecting the public building will be:
- Developing criteria
 - Selecting a shortlist of buildings, working with the building occupants and budget holders. This shortlist will include at least one school.
 - Carrying out feasibility study on the buildings to show how each would meet criteria
 - Selecting building to proceed on basis of feasibility study
- 2.10 The bid submission will make clear that the initial stage of implementation will involve a feasibility study and any financial contribution from the LA partners would only be committed once an acceptable rate of return had been identified as part of this process.
- 2.11 Procurement for works on the houses is underway, as part of the Remourban project “gold standard” homes, with the tender documents explaining that there was the possibility of expanding the programme should the funding become available. For public buildings, a contract will be procured to deliver the retrofits using the same model for procurement as for the houses - an outcome-focused competitive process would be carried out after the feasibility studies have identified which buildings are most suitable. In both cases we will ensure that lessons are learned from the Remourban project before we sign contracts with the contractors for the ERDF funded project.

Match funding

- 2.12 For the Nottingham City Council houses, the match funding is from the Capital Programme budgets already allocated to work on energy over the next 5 years. The investment made in these properties at this stage will offset money which was planned to be spent in the 30 year programme, but does mean that fewer houses will receive external wall insulation in the next 5 years than originally envisaged. This project is needed to ensure all homes needing external wall insulation can be funded to those higher standards at an affordable level, and the NCH sustainability strategy has shown that this innovation is required if we are to achieve 2050 standards.
- 2.13 The graph below shows how the Energiesprong funding model works. An investment envelope is calculated using the savings that will be made as a result of the work on maintenance and energy costs, and subsidies received from renewable energy fitted. With scale and a well-developed off site manufacturing

industry, the investment envelope would pay for the cost of the work on its own. To get to this point grant funding is required, which is what the ERDF bid covers.



2.14 For the public building, the match funding will come from the Energy Development Fund and SALIX loans, as is typical for all energy projects on Nottingham City Council estate. It will only be invested if it can be shown to achieve at least 5% rate of return, according to the approvals already given for that funding.

2.15 The indicative figures used in the expression of interest were calculated on the basis of using one of the Nottingham schools meeting the common archetype “CLASP” which is common throughout the region. We are keen to use one of these buildings if possible because they are cold and inefficient and have some maintenance issues which this project would also help resolve. Their common nature around the region also provides a rollout potential for the prototypes produced, so encouraging the offsite manufacturing needed to cut the total costs. If a school is used, we would need the school’s agreement and a funding and contractual arrangement with the school which is acceptable to both parties, and takes into account future risk of academisation. This would form part of the selection of the public building described above.

2.16 The breakdown of funding across the project is shown below, subject to more detailed work before the 14th July deadline. Match funding for all the public buildings is 50/50, and for all the houses is based on the investment envelope above, for every partner.

Capital Costs	Total Cost £m	Grant Income £m	NCC capital investment £m	Other LA investment £m
Housing (HRA)	9.500	4.214	5.286	
School / Public Building	0.620	0.310	0.310	
Nottingham Total	10.120	4.524	5.596	
Derbyshire Office	0.680	0.340		0.340
Nottinghamshire School	0.620	0.310		0.310
Derby Homes	0.712	0.327		0.385

Project Total	12.132	5.501	5.596	1.035
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Revenue Costs	Total Cost £m	Grant Income £m
Nottingham City Homes	0.255	0.255
Nottingham City Council	0.196	0.196
Nottingham Total	0.451	0.451
Derbyshire County Council	0.010	0.010
Nottinghamshire County Council	0.010	0.010
Derby Homes	0.050	0.050
Total Project	0.521	0.521

Timescales

- 2.17 For houses, the first homes could be started in late 17/18, following the completion and review of the remourban project to ensure lessons are learned from the pilots. The majority would be homes would be retrofitted in 18/19 and 19/20
- 2.18 For the public building, the feasibility studies would take place in late 17/18 and early 18/19. Retrofitting the building would then take place in 18/19 and 19/20.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 3.1 Not bidding for ERDF funding. This was discounted because the project would bring much greater benefit to NCH tenants in particular than could otherwise be afforded, and have a knock on economic impacts to the region.
- 3.2 Bidding for less ERDF funding to reduce the match funding commitment. This was discounted because, as a development phase of an innovative approach, several hundred buildings are needed to prove it works, and to reduce the costs per home through economies of scale. We also hope the scale could bring offsite manufacturing to the city.
- 3.3 Not including a public building. It was felt this was an opportunity to make a bigger energy reduction to a building that could otherwise be afforded, for the same return as under our usual investment rules.

4 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

- 4.1 see exempt annex.

5 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

- 5.1 An Official Journal of the European Union (OJEU)-compliant procurement procedure is already underway to appoint a contractor to deliver the Energiesprong retrofit to the domestic properties in Nottingham. Should any further procurement become necessary in the delivery of this project, the Procurement Team will assist to ensure that any proposals are compliant with Nottingham City's Contract Procedure Rules and the Public Contracts Regulations, and deliver value for money.

Procurement comments provided by Jonathan Whitmarsh, Lead Procurement Officer, Places Category.

- 5.2 The City Council is currently undertaking a procurement procedure (which includes the right to negotiate) to appoint a contractor to deliver the pilot scheme with an option to extend for the additional 250 homes described in this report. The option will give the City Council the ability to award the works to the chosen contractor if both the pilot and the grant bid are successful. The City Council must ensure it can comply with any terms and conditions in the grant funding agreement (if the bid is successful) which might include restrictions on disposals of capital assets.
- 5.3 The City Council must ensure it complies with any statutory processes and consultations which are necessary if the City Council wishes to recover the energy fee from its tenants.
- 5.4 If the public building chosen is a school which subsequently becomes an academy then as the City Council is not able to oblige the academy to continue with the energy fee there is a risk the academy gains the benefit but does not agree to take on liability for the fee. As the accountable body for the grant funds the City Council should enter into appropriate contracts with the other local authorities for the delivery of the works to their public buildings.

Andrew James Team Leader (Contracts and Commercial)

6 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

- 6.1 The proposed works are designed to improve the energy efficiency of the properties and, in respect of the residential properties, improve the quality of life of the residents. The improvements are unlikely to increase the value of each property by the cost of the works to that property. If any of the homes to which work has been carried out are subsequently sold under the Right to Buy the capital invested in the property will be protected by cost floor provisions which ensure that the property is not sold for less than the amount spent on it in the preceding 10 year period. However if there is a requirement to repay grant funding on sale, although the cost floor protects the capital invested this will not translate in to funds to repay grant funding. In respect of the public building, if the building is subsequently sold or in the case of a school, transferred as an academy, the

investment in the property will potentially be lost and the capital receipt, if any, may not provide sufficient funds to repay grant / loan funding if repayment is required.

These risks require careful consideration and steps taken to mitigate the risks before proceeding.

Comments provided by Rod Martin, Development and Disposals Service Manager, 19th May 2017.

7 SOCIAL VALUE CONSIDERATIONS

- 7.1 Cold homes are linked to a wide range of health issues, from mental health to asthma and respiratory issues, to trips and falls, some of which are responsible for excess winter deaths and excess winter hospital admissions as stated in the Fuel poverty report commissioned for the Government. The impact of these on the NHS has been estimated at £145m per annum.
- 7.2 Jobs and training opportunities will be created for Nottingham residents through the delivery of this project. The successful bidders for each project will be required to provide traineeships and local employment opportunities.

8 REGARD TO THE NHS CONSTITUTION

- 8.1 These works will improve health and wellbeing of residents living in the homes due to reduced fuel poverty and warmer homes.

9 EQUALITY IMPACT ASSESSMENT (EIA)

- 9.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required because: The only element where one would be necessary is for access to NCH homes. This was already provided for in permissions for the Capital Programme, which is being used in this project.

10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

- 10.1 None

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

- 11.1 Medium Term Financial Plan approval includes the funding for the Capital Programme for Nottingham City Council

<http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=177&MId=5775&Ver=4>

- 11.2 Delegated Decision 2600 in September 2016 - approves Energy Development Fund and delegates decision making to Wayne Bexton, Head of Energy Projects.

<http://committee.nottinghamcity.gov.uk/ieDecisionDetails.aspx?ID=3876>