

Sustainable Warmth (HUG2) Financial Advice

The decision seeks to approve submission of a regional consortium bid for funding of up to £150m for HUG2 from BEIS with NCC as the Lead Authority and to delegate authority to the Director of Carbon Reduction, Energy and Sustainability to accept the grant funding subject to an approved business case, or Project Initiation Document, being submitted and approved and funding conditions being approved by the Director of Legal and Governance and Executive Director of Finance (s.151 Officer)

The grant will be managed through the Midlands Net Zero Hub (MNZH) within the CRES Directorate to pass-through grant to LAs and WMCA across the Midlands.

This decision aligns with the Strategic Council Plan 2021-23 [1] as per **Outcome 3; Carbon Neutral by 2028**, specifically:

- We will continue to reduce fuel poverty in Nottingham, by helping households to save on their energy bills, through improving energy efficiency and energy generation

HUG 2 builds on the work of the previous fuel poverty schemes, HUG1 and LAD3 to provide energy efficiency upgrades and low carbon heating via local authority funding, to households that are low income, off the gas grid and have an EPC between D and G. Up to £700 million of funding will be made available to LAs to help them deliver HUG 2 until March 2025, with funding released to successful LAs in the financial years 2023/24 and 2024/25.

Some LAs in the Midlands do not have capacity to submit an individual bid for funding, particularly within the required timescales. Due to the model developed and implemented through HUG Phase 1 as part of the Sustainable Warmth Competition, a number of LAs have expressed interest in a regional bid with MNZH as the Lead Authority, which offers an opportunity for all LAs in the region to access funding to support thousands of fuel poor households.

If the bid is successful, an approved business case or PID will be submitted, to seek approval to spend the grant funding. At that point the exact allocations for the MNZH and NCC will be known and will be detailed in the financial observations accompanying the associated decision report

Financial Breakdown

It is anticipated that the format of the grant will follow the previous round (HUG1). As such an element of the grant (15%) will be available for Admin & Ancillary (A&A) works and the remainder to cover the energy efficiency upgrades. To support HUG2, MNZH will re-procure services (at a value estimated at 3% of the A&A allocation) to assist with the customer journey and implementation. To cover ongoing staff costs and support including assistance with the Dynamic Purchasing System, MNZH requires 3% of the admin budget. This will provide each LA or Consortium Project with a minimum of 9% for A&A, to use at their discretion within the terms of the funding

A summary of the estimated grant breakdown is shown below in **Table 1**.

Table 1; HUG2 Grant Summary

HUG2 Breakdown	£m	Match %
Capital Pass-through	120.000	
Admin/Ancillary LAs	12.000	
Admin/Ancillary MNZH	9.000	
HUG 2 Grant Award to the Council (NCC)	141.000	
Landlord Contributions (Social) (capped at 10% of homes)	5.985	50%
Landlord Contributions (PRS)	3.990	33%
Total Project Costs (including Landlord Contributions)	150.975	

The estimated allocation for NCC from the capital pass through is £2.783m.

Landlord contributions will be collected by successful LAs where applicable. This has been capped at 10% for Social Housing and due to match funding requirements, it is estimated that only 10% of the properties will be from the Private Rented Sector with the majority (80%) of the properties being owner occupied households and fully covered by grant funding.

Revenue Consideration

There is allocation of £9m within the grant for administration and ancillary costs which can be utilised by the MNZH. See **Table 1** above.

There are 7 permanent employees and all other posts will remain fixed term for the duration of the grant. Future pay awards are not yet known therefore any increase to base salary costs will need to be captured within the current financial estimate and contract lengths reduced accordingly. This will be based on the current rate of inflation at 10%.

However, any employee with 2+years NCC service may be entitled to redundancy costs therefore this should be taken into consideration and be provided for under the grant (if allowable), or if not allowable, redundancy costs will need to be met within future CRES resource allocation.

There is scope to revise these budget heading allocations if needed over the length of the project and this can be addressed through the corporate virement process.

Capital Consideration

Accepting this grant does not increase the Council's Capital Programme. However, any grant pass-through allocated to the Council itself through its own potential bid to access funding is required to obtain the necessary approval after undergoing the Council's capital prioritisation process. Therefore, further approval is required before

committing the Council to any allocation of grant pass-through and capital programme commitments.

Risks

CRES/MNZH will need to put in place internal financial and other systems due to its Accountable Body role in order to meet the grant conditions and returns defined in the MoU to minimise the risk of grant clawback, all aligning to NCC Financial Regulations & Contract Procedure Rules, including any relevant CPAs.

A requirement of the grant is that LAs will need to ensure landlord contributions are captured in order to match grant spend. This is an additional burden on LAs regarding contribution collection, and an additional requirement on the accountable body regarding claims and reporting.

As MNZH has experience in administering large grants, existing systems may be used in order to assist efficient start-up.

Recommendation

If successful, it is recommended an earmarked cost centre under the remit of MNZH is allocated with analysis codes to track the various funding elements of the grant to assist financial monitoring.

Processes will need to be put in place to ensure records are kept for the required 10-year period to comply with BEIS audit requirements.

**Alison Bennett- Senior Commercial Business Partner – Carbon Reduction,
Energy and Sustainability**

Tom Straw - Senior Accountant (Capital Programmes)

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References

[1] Pg 16, [strategic-council-plan-2021-23 final.pdf \(nottinghamcity.gov.uk\)](#)