

Executive Board – 18 July 2023

Subject:	Devolution Deal – Retrofit Capital Funding £9.92m
Corporate Director(s)/Director(s):	Ita O'Donovan, Interim Corporate Director of Communities, Environment and Resident Services Wayne Bexton, Director of Environment and Sustainability
Portfolio Holder(s):	Councillor David Mellen, Portfolio Holder with responsibility for CN2028
Report author and contact details:	Michael Gallagher, Head of Midlands Net Zero Hub michael.gallagher@nottinghamcity.gov.uk
Other colleagues who have provided input:	Wayne Bexton, Director of Environment and Sustainability
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 checked="" type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Type of expenditure: <input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital If Capital, provide the date considered by Capital Board: consideration subject to the proposed bid being successful	
Total value of the decision: £9.92m	
Wards affected: All	
Date of consultation with Portfolio Holder(s): Councillor Mellen – 26 June 2023	
Relevant Council Plan Key Outcome:	
Clean and Connected Communities	<input type="checkbox"/>
Keeping Nottingham Working	<input type="checkbox"/>
Carbon Neutral by 2028	<input checked="" type="checkbox"/>
Safer Nottingham	<input type="checkbox"/>
Child-Friendly Nottingham	<input type="checkbox"/>
Healthy and Inclusive	<input checked="" type="checkbox"/>
Keeping Nottingham Moving	<input type="checkbox"/>
Improve the City Centre	<input type="checkbox"/>
Better Housing	<input checked="" type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input type="checkbox"/>
Summary of issues (including benefits to citizens/service users):	
<p>The D2N2 LEP (Derby, Nottingham, Derbyshire and Nottinghamshire Local Enterprise Partnership) Energy Strategy (D2N2, 2019) contains targets that the number of households experiencing fuel poverty should be below the national average and that all buildings should be Energy Performance Certificate (EPC) C or above by 2030. The Derbyshire Spatial Energy Study (Scene, 2022) states that local authorities should focus on meeting national target EPC levels of C.</p> <p>Benefits from reducing heat loss from homes include:</p> <ol style="list-style-type: none"> 1) lower bills and an associated reduction in fuel poverty; 2) improved thermal comfort; 3) improved health and wellbeing through warmer homes; and 4) improved air quality through reduced burning of fossil fuels to provide heat. 	

Retrofit is clearly a key component of Net Zero with a range of positive benefits however Local Authorities have struggled with the stop start and competitive nature of funding making it difficult to recruit and retain in-house staff with required level of expertise. This has impacted the local supply chain; it is difficult to scale up delivery in short periods of time and supplier confidence in Government funding projects requires strengthening. Furthermore, current Retrofit schemes are competitive with strict criteria at a time when Local Authorities require additional flexibility from funding to resolve place based challenges.

Current Government funding for retrofit projects has resulted in delivery gaps across neighbourhoods and households benefiting from funding as they fall outside of a scheme's strict criterion. With the cost-of-living crisis residents across the region are struggling to pay their energy bills and as a result, fuel poverty is expected to increase significantly in the winter. A greater level of residents who would not previously consider themselves fuel poor will require support, many of which will not be eligible due to current income thresholds for funding schemes and need support.

Approval is being sought to receive and spend £9.92m on domestic energy efficiency and low carbon retrofit activities within the D2N2 area. The funding would complement existing funding received in the region for Local Authority Delivery Phase 2 (LAD2), Sustainable Warmth Competition (SWC), HUG and Social Housing Decarbonisation Fund (SHDF).

A Section 31 Grant funding agreement / Memorandum of Understanding will be put in place between Department for Levelling Up, Housing and Communities (DLUHC) and Nottingham City Council. Nottingham City Council will then put an agreement in place with the other Local Authorities that refer back to the terms in the Memorandum of Understanding, in the same manner in which the Midlands Net Zero Hub manage their consortia programmes (templates are drafted for other programmes that can be amended / tailored for this scheme).

Funding eligibility, cost caps and outcome criteria limits area-based opportunities. This £9.92m of requested funding will maximise delivery by taking a fabric first, least regret and holistic approach - completing street by street to increase value for money, energy efficiency and carbon saving from eliminating sprawl.

This project looks to evenly split the £9.92m across the EMCA Local Authorities, to effectively complement the existing funding streams and better enable an area-based approach. For example, this would enable properties within a row of terraces that fall outside standard funding criteria to also be included in the retrofit programme being delivered by the Local Authority and reported on by the Midlands Net Zero Hub (MNZH). This also allows for the option of fully funded works.

Key timeframes

- Week 1 - Funding received
- Week 2 to 6 - Grant award letters
- Week 6 to 9 - Project plans developed
- Week 9 to 12 - Grant funds approved and full payment made
- Weeks 10 to 14 - Mobilisation and Procurement
- Weeks 10 to 50 - Project Delivery¹
- Weeks 48 to 52 - Project Close down and Evaluation

The funding will be split evenly across the 17 Local Authorities:

Each Local Authority will therefore receive £583,495 for Capital and capitalization works.

The £9.92m will result in the following targets:

- 85 (Whole House Retrofit) All required SAP10 measures (including battery storage)
- 600 measures installed (including battery storage)
- Improved health and wellbeing for home occupier's lower bills and lower carbon footprint.

Any variation to the above will be the result of PAS2035 approach and available households within the timeframe. It is expected each Local Authorities will look to deliver this funding delivering a 100% take up of the funding. Where households decline grant funding, the Local Authority will review the impact on the programme as a whole, before deciding whether to continue the funding in that area or focus elsewhere. However, programmes are not anticipated to be prevented in a place, based on a low number of refusals; particularly if it is adding value/ complimenting other programmes being delivered in the area.

This scheme is linked to the delivery of SWC, HUG and SHDF all of which are in the process of being delivered. Therefore this scheme is not dependant on them, but enabled by them and adds value by allowing the Local Authorities to deliver retrofit to properties that require retrofit but have been missed out because they sit outside the strict criterion of the other schemes.

Geographically Derbyshire and Nottinghamshire county areas which are anticipated to form the East Midlands Mayoral Combined Authority will benefit from this scheme.

Midlands Net Zero Hub, will collate progress on a monthly basis through to the end of the delivery window.

Risks to the programme hinge on when the funding is made available, as this funding will compliment other programmes of work that are ongoing. Mitigation will be put in place to monitor progress and ensure that the additional funding does enhance and not detract from other works on going. Procurement risks are expected, but manageable. There are challenges within the supply chain with rising material costs, and availability of labour. The rising material costs will be mitigated through there not being a cost cap associated with this funding and engagement with local supply chain suggests there is currently some availability in the market. Where costs do increase Local Authorities will still work to Key Performance Indicators set, through changing the measure mix increasing the number of lower cost measures where appropriate. Furthermore, funds can be utilised for additional measures in properties that further increases EPC rating and prevents repeat visits under future schemes minimising disruption and maximising benefits for the occupiers. Quality of delivery will be mitigated through following PAS2035 and good local project management at Local Authority level, which will flag issues early.

Does this report contain any information that is exempt from publication?

No

Recommendation(s)

1. To delegate authority to the Head of Midlands Net Zero Hub in consultation with the Director of Environment and Sustainability to accept £9.92 million in grant funding from the Department for Levelling Up, Housing and Communities for the Devolution Retrofit Grant via Derbyshire County Council, and to delegate authority to the Head of Midlands Net Zero Hub to enter into a Grant Agreement for the funding.
2. To spend a grant allocation of £9.92m from the Department for Levelling Up, Housing and Communities, via Derbyshire County Council for the Devolution Retrofit Grant to support

regional delivery.
3. To delegate authority to the Director of Environment and Sustainability, in consultation with the Head of Midlands Net Zero Hub to manage the grant via Midlands Net Zero Hub, and to delegate authority to approve and sign funding agreements and manage grant expenditure. This includes passporting funding out the D2N2 Local Authorities their equal portion of the funding £583,495.
4. To delegate authority to the Director of Environment and Sustainability and Head of Midlands Net Zero Hub to procure and award contracts required to deliver Nottingham City Council's proportion of the capital funding.

1. Reasons for recommendations

- 1.1 At Full Council on the 13th January 2020, the Council declared a Climate and Ecological Emergency. Then in June 2020 the CN 2028 Action Plan was published by the City Council to achieve sustainable carbon neutrality for Nottingham. Many of the partner Local Authorities have also declared Climate Emergencies, but recognise that they cannot deliver against their ambitions in isolation. Furthermore, some actions make more sense to deliver at a regional level.
- 1.2 Local Authorities across the D2N2 region have declared climate emergencies with many targeting 2030 as their ambition to reach Net Zero. This is supported by the D2N2 LEP Energy Strategy, which at the time of writing referenced 12.1% of homes being in fuel poverty; this will be increasing with the current increase in energy costs. A key target within the strategy is by 2030 for 15% of buildings using low carbon heating and all current building stock be Energy Performance Certificate level C or above where possible alongside an ambition to comply with, and exceed where possible, applicable air quality standards in all locations.
- 1.3 Retrofit is cornerstone activity and will support the region's ability to achieve Net Zero and is an efficient path to achieve Net zero at a Local Authority, County and Regional level.
- 1.4 The outputs of the funding will have a direct benefit on citizens in receipt of the work, including warmer homes in the winter and lower energy bills. Current Government funding retrofit projects have resulted in delivery gaps across neighbourhoods and households benefiting from funding as they fall outside of a schemes strict criterion. With the cost-of-living crises residents across the region are struggling to pay their energy bills and as a result, fuel poverty is expected to increase significantly in the winter. A greater level of residents who would not previously consider themselves fuel poor will require support, many of which will not be eligible due to current income thresholds for funding schemes yet will need support.
- 1.5 This is an exciting opportunity to deliver a project that involves every Local Authority that will fall within the combined authority area. As this is a starting point of a working relationship with the Combined Authority it is important that each LA has the opportunity for equal involvement. Therefore an even split of the funding is the preferred approach and supported by Local Authorities across the D2N2 region for the following reasons:

- 1.5.1 This is the only capital funding programme at this stage that covers all Local Authority areas and will help ensure full buy in for Devolution around a shared goal of reducing fuel poverty and supporting the Net Zero ambition of the region.
- 1.5.2 A proportional split would mainly affect the two city regions, significantly increasing their share as the two City areas would be allocated £2.8m equating to 28% of the funding. Both city regions are successfully delivering retrofit programmes, with a revenue budget, and within the delivery window of this programme. The additional funds through a proportional split approach may be challenging to deliver in the timeframe, particularly given that there is no revenue funding which would make it very difficult, if not unaffordable, for the cities to deliver this capital retrofit program where the capital funding would then be in excess of £1m.
- 1.5.3 The levelling up ambition would still remain with an equal split, as the approach is still looking at levelling up D2N2 as a unified entity and ensuring there is support being provided in every Local Authority area. Furthermore, where underspend is expected, it can then be re-allocated proportionally across those areas that are able to over deliver.
- 1.6 Local Authorities will follow their own procurement processes. There is strong regional support for creation of local jobs and encouragement of local small and medium enterprises to participate in the scheme.
- 1.6.1 Local Authority procurement is expected to have the evaluation criteria set out in the template ITT which will cover method statements, risk assessment, and delivery of social value; and any other criteria identified as necessary during the stakeholder consultation. Local Authorities will be able to add specific additional criteria for their call-offs where these are relevant and proportionate to the project in question. Local Authorities will be individually responsible for meeting Health and Safety requirements.
- 1.7 Local Authorities will report progress monthly to Midlands Net Zero Hub who will collate the information and report to Department for Levelling Up, Housing and Communities.

2. Background (including outcomes of consultation)

- 2.1 This is a grant funded programme, with Local Authorities having the option to set the level of match contribution and/ or blending with other funding streams (pending those schemes' criteria).
- 2.2 MNZH / NCC will have no contractual relationship with contractors (apart from the NCC delivery) and no involvement in governance and contract management, which will be the responsibility of the individual Local Authorities. However, MNZH will collate Local Authority delivery through monthly reporting. Each Local Authority will manage risk management including fraud and will declare monthly spend of the grant.
- 2.3 Nottingham City Council (NCC) as the accountable body for MNZH has its own financial regulations, contract procedure rules and follows accounting standards. NCC has a policy to pay invoices within 30 days and has its accounts published each year on its website. NCC conducts an internal audit and is externally audited each year.

- 2.4 Local Authorities will use tendering and site planning processes effectively to ensure value-for-money is obtained. Local Authorities will encourage local suppliers and new entrants to the sector to participate.
- 2.5 The primary purpose of the funding is to raise the energy efficiency rating of low-income and low EPC rated homes (those with D, E, F or G) on the gas grid and off the gas grid. This funding will also support low-income households with the transition to low-carbon heating. We expect the funding to result in the following outcomes:
 - 2.5.1 Tackle fuel poverty by increasing low-income homes' energy efficiency rating while reducing their energy bills – Protecting Vulnerable Households in England Strategy 2021.
 - 2.5.2 Deliver cost effective carbon savings to carbon budgets and progress towards the UK's target for net zero by 2050.
 - 2.5.3 Support clean growth and ensure homes are thermally comfortable, efficient, and well-adapted to climate change.
- 2.6 The funding will support energy efficiency measures and low carbon heating for off gas grid homes and on gas grid homes, with an aim of upgrading homes to a target energy efficiency rating of EPC C, or EPC D where this is not possible. Local Authorities may wish to go further and reach EPC A or B where appropriate and practical to do so.
- 2.7 This work includes, but is not limited to:
 - 2.7.1 85 Whole House Retrofit approach scaled with all compliant required SAP measures installed (Target of 5 homes per Local Authorities)
 - 2.7.2 600 PAS2035 compliant measures installed
 - 2.7.3 Improved health and wellbeing for home occupiers through a pre and post survey
 - 2.7.4 Reduced consumption and lower carbon footprint
 - 2.7.5 Reduced number of households below a C
 - 2.7.6 Average SAP improvement
 - 2.7.7 Selection of Local Authority projects, including initial screening of delivery plans for compliance and eligibility
 - 2.7.8 All Local Authorities to use TrustMark registered businesses and registered with the Microgeneration Certification Scheme where applicable for capital works and follow the PAS 2035 process.
 - 2.7.9 Monitoring the projects including monitoring Local Authority progress, seeing that projects are delivering in terms of scope, and timeline, escalation of issues as necessary, and providing regular monthly reports to Government.

3. Other options considered in making recommendations

- 3.1 Not to proceed with the work. This would be a missed opportunity to attract investment and support local jobs while delivering against net zero/ carbon neutral commitments and reducing incidences of fuel poverty.

4. Consideration of Risk

- 4.1 This is low risk to the Council. The work is funded by Government and delivery is the responsibility of each partner.
- 4.2 The funding is capital only, so local authorities are committed to covering revenue costs.

5. Best Value Considerations, including consideration of Make or Buy where appropriate

- 5.1 This approach is considered best value.
- 5.1.1 This is 100% grant funded which compliments other funding secured through other sources.
- 5.1.2 Nottingham City Council's delivery officers within the Environment and Sustainability Division will work with the procurement team to ensure that the most cost effective approach is taken while ensuring quality is maintained when procuring the contractor to deliver retrofit works.
- 5.1.3 D2N2 local authorities will be responsible in full for their portion of the funding, and will be expected to also follow procurement practices that deliver best value.

6. Finance colleague comments (including implications and value for money/VAT)

- 6.1 This decision has been endorsed by Capital Board on 12 July 2023, so will be added to the Capital Programme following formal approval.
- 6.2 As defined in the retrofit grant conditions confirm this is a capital grant with no revenue element. Therefore, following the approval of this decision the capital programme will be updated as follows:
- £9.2m Midlands Net Zero Hub, for grants to be allocated to external organisations, and
 - £0.6m Nottingham City Council allocation, if the Council requires match funding to be identified it may require match funding or endorsement by the Capital Board as defined by the Council's decision making process.
- 6.3 The project managers are required to ensure grant conditions are met to reduce any risk of grant clawback.

Tom Straw – Senior Accountant (Capital Programmes), 29th June 2023

7. Legal colleague comments

- 7.1 Section 31 of the Local Government Act 2003 (LGA 2003) is a well-established statutory means by which central government may disburse funds to local authorities for them to provide grants for a specified purpose while

retaining control of the recipients via funding conditions and clawback provisions. In this instance Derbyshire County Council is the accountable body and has agreed to make a grant available to Nottingham City Council as the recipient for the purposes of financially assisting the Project described in this report.

Legal Services supports the acceptance of this grant and has reviewed the terms of it which are wholly consistent with general grant conditions. Legal Services has further advised the client department of the circumstances in which the clawback provisions could be invoked to enable this risk to be effectively monitored and managed.

Benita Meehan – Commercial and Contracts Solicitor – 29 June 2023

8. Other relevant comments

8.1 Procurement comments

Contracts for goods, services, or works, associated with or in support of the scheme must be awarded in compliance with Contract Procedure Rules and the Public Contracts Regulations 2015. Further advice must be sought from the Procurement Team before making appointments or awarding contracts.

Jonathan Whitmarsh, Corporate Procurement Officer, Resources – 23 June 2023

9. Social value considerations (If Applicable)

- 9.1 All procurement exercises overseen by the Council's Procurement team consider social value.

10. Regard to the NHS Constitution (If Applicable)

- 10.1 Not applicable

11. Equality Impact Assessment (EIA)

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

No ☒
An EIA is not required because this decision does not represent proposals for a new or changing policy, service or function.

Yes ☐

12. Data Protection Impact Assessment (DPIA)

- 12.1 Has the data protection impact of the proposals in this report been assessed?

No ☒
A DPIA is not required because this report does not represent proposals for the collection of personal data.

Yes ☐

13. Carbon Impact Assessment (CIA)

13.1 Has the carbon impact of the proposals in this report been assessed?

No

☒

A CIA is not required because one of the key objectives of this work is to reduce carbon emissions. Upon commencement of the project, it will be possible to profile expected carbon savings with partners.

Yes

☐

14. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

None

15. Published documents referred to in this report

None