



Department for
Business, Energy
& Industrial Strategy

Lord Callanan
Minister for Business, Energy and Corporate
Responsibility

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11th July 2022

Dear Dr Nik Johnson,

**RE: REQUEST FOR AN EXTENSION TO DECEMBER 2022 FOR THE LAD PHASE 2
SCHEME AND SUSTAINABLE WARMTH TO DECEMBER 2023**

Thank you for taking the time to write to me on the 17 June 2022 on behalf of the Leaders of the Cambridgeshire & Peterborough Combined Authority in your capacity as Mayor of Cambridgeshire & Peterborough and our discussions at the meeting held on Thursday 23 June 2022.

In February 2021, the South East (SE) Hub was allocated approximately £80m of the £300m available LAD 2 funding, based on the proportionate number of eligible UK properties and a “base” allocation of £40m of capital funding through grant allocation under Section 31 of the Local Government Act 2003. The original agreed delivery milestone was 31 December 2021. This was extended to 30 June 2022 in December 2021, and the approval provided by HM Treasury on 31 May 2022 now allows delivery of measures to signed up households until 30 September 2022. These extensions were provided to secure delivery of the scheme and mitigate COVID-19 impacts. As confirmed yesterday there will be no further extensions as advised to your team previously.

Under Sustainable Warmth, Cambridge & Peterborough Combined Authority (CPCA) was awarded £118m of the c. £500m available funding, to deliver 10,242 homes by 31 March 2023.

As you mention in your letter, the political and public narrative surrounding the LAD scheme has been overwhelmingly positive. With increased pressures from increasing fuel prices, the cost of living and inflation driving demand, it is only right that BEIS look to maximise funding going into the system, and to maintain confidence in the schemes by the delivery committed to by LAs and their supply chains. This includes working with the Hubs to address current issues and improve future delivery capability.

Although BEIS are sympathetic to the challenges that the SE Hub faced at the beginning of the project(s), it is important to note that the decision to centralise all procurement and delivery was the choice of the SE Hub (on LAD 2), something which your Local Authorities within the Hub raised concerns around at the time. While I appreciate you subsequently

revised this decision when it became apparent the SE Hub did not have the capability or capacity to manage these activities, this has undoubtedly contributed to the delays you describe

Since January 2022, BEIS have received formal complaints from four councils regarding SE Hub's lack of communication and ability to manage delivery under LAD 2. Consequently, on the 28 January 2022 the BEIS LAD 2 Delivery team, Communications team and Deputy Director met with the SE Hub management to request that the Hub improve their communications strategy with their LAs.

In December 2021, following the withdrawal of the managing agents in October 2021, BEIS formally requested that the SE Hub submit a recovery plan outlining your delivery routes for both the LAD 2 and Sustainable Warmth schemes. In December 2021, the SE Hub submitted a recovery plan, however the plan failed to meet the required standard; it did not include for example, critical KPI information or, importantly, adequate assurance to BEIS about your proposed delivery. The Hub resubmitted the updated recovery plan to BEIS in January 2022, confirming their spend was being reduced to just £46m with a confirmed delivery date of June 2022.

The delivery teams within BEIS have done all that they can to support the SE Hub with delivery and have met with them weekly to discuss progress. However, despite this support, the SE Hub informed the LAD 2 delivery team in April that the projected spend was likely to be reduced to around £12m. We were advised that this expenditure would be delivered through their Managing agent (Warmworks) and Local Authority Grant Funding Agreements.

It is our understanding both recovery plans highlighted above went through Cambridgeshire & Peterborough Combined Authority Board governance for approval. It is clear to see from the significant shortfall of the amount spent and homes delivered being reported to BEIS that the SE Hub have failed to deliver even a small proportion of the figures signed off in these plans. This raises considerable concerns for BEIS on the strength and ability of the governance that the SE Hub have in place to monitor and assure delivery.

BEIS appreciates the additional work that the SE Hub have undertaken to resolve the issues that they faced, however, there are still major concerns around the ability of the SE Hub, and that of its Supply Chain, to deliver a significant proportion of the agreed works across both LAD 2 and Sustainable Warmth.

According to the May LAD 2 monthly report, only £5.4m of the £80m has been spent and that just £10m was forecast to be spent by the end of June 2022. It was highlighted at the meeting that your trajectory of spend, to achieve your total LAD 2 commitment of £25m by the end of September, will need to be in the region of £800k per week from 1 July 2022. Under Sustainable Warmth, of the £118m awarded, only £56k has been spent to date, meaning that you are required to spend upwards of £11m per month over the remaining 10 months to meet their target, we have no confidence that this would be achieved. I am sure that you will agree it is clear from these figures that despite your efforts, the SE Hub have not shown significant increases in capability or capacity to manage or deliver the homes already committed to under our schemes.

To summarise, the combined LAD 2 and Sustainable Warmth allocations, across the c.24-month delivery period, SE Hub have been issued a total of £198m of the c.£600m. Your current plans indicate you will deliver just, a third of your allocation due to your poor delivery performance and assurance processes. This has severely jeopardised both schemes performance. As I stated in the meeting, HMT believe the approach of providing Local Authorities and Energy Hubs the ability to deliver our schemes is not proving to be successful

and they have identified they may prefer removing delivery from you to a more centralised delivery.

Your commitments to the delivery of LAD 2 and Sustainable Warmth are welcomed, especially for the confirmation of a total spend of £25m against LAD 2 by 30 Sept 2022, and that any underspend on the schemes would be returned in a timely manner through using your engagement with the Greater South Eastern Net Zero Hub Board in July 2022. Your commitment to provide sight of the fortnightly updates being provided to the board, to BEIS, will provide us with additional supporting evidence on delivery of your LAD and Sustainable Warmth.

For these reasons above and because any form of managed closure or extension would fall outside the parameters of the funding agreed with HM Treasury, we are unable to progress with your extension request. I ask that you continue to work with your LAD 2 and Sustainable Warmth account managers to flag any concerns or queries that you have and work together to monitor the remaining delivery



Lord Callanan