



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

Agenda Item No: 2.2

Sustainable Warmth Budget

To:	Cambridgeshire and Peterborough Combined Authority Board
Meeting Date:	31 August 2022
Public report:	Yes
Lead Member:	Mayor Dr Nik Johnson
From:	Maxine Narburgh, Regional Head of Greater South East Net Zero Hub
Key decision:	Yes
Forward Plan ref:	KD2022/049
Recommendations:	<p>The Combined Authority Board is recommended to:</p> <ul style="list-style-type: none">a) Note the ongoing challenges and work to manage the recovery plan for the Sustainable Warmth project and the revised forecast covering the scheme to complete installations by 31 March 2023.b) Approve the return of underspend to BEIS of £62,619,025 that is detailed in an MOU variation attached as Appendix 1.c) Delegate authority to the Interim Chief Executive and Monitoring Officer to return any remaining unspent capital funds at scheme end in line with the original MOU and scheme conditions.d) Approve the establishment of a Sustainable Warmth (Retrofit) project board, based on the outline structure in this paper and delegate authority to the Interim Chief Executive, in consultation with the Lead Member for the Environment and Climate Change, Chief Finance Officer and Monitoring Officer, to agree terms of reference.
Voting arrangements:	A simple majority of all Members present and voting.

To be carried, the vote must include the vote of the Mayor, or the Deputy Mayor when acting in place of the Mayor.

1. Purpose

- 1.1 This report is to update the Board on the current status of the Sustainable Warmth scheme delivery, noting new forecasts for the out-turn.
- 1.2 To inform the Board of the request from BEIS and ask for decision on early return of funds which will remain unspent in this scheme.
- 1.3 To ensure the scheme can close in April 2023 in line with the requirements in the MOU without recourse to further decisions from the Board.
- 1.4 To get support for implementation of new governance arrangements for the project which operate in line with the development of governance arrangements within the Combined Authority and provide a better fit for the structure of operating the scheme through the Greater South East Net Zero Hub and the participating Local Authorities.

2. Background

- 2.1 On the 30 June 2021, the CPCA Board gave permission for the Greater South East Net Zero Hub (GSENZH) to bid into the Sustainable Warmth competition funded by BEIS. BEIS issued the Combined Authority a Sustainable Warmth Funding agreement of £118,389,025, and the Memorandum of Understanding (MoU) was signed on the 19 November 2021.
- 2.2 On 26th January 2022, the CPCA Board approved the creation of budget lines to deliver the services set out in the MoU for the £118,389,025 Sustainable Warmth programme.
- 2.3 Sustainable Warmth is a single funding opportunity which brings together two fuel poverty schemes. It aims to save households money, reduce fuel poverty, cut carbon and support the aims of the Prime Minister's 10 Point plan for a Green Industrial Revolution.
- 2.4 Sustainable Warmth Fund provides funding to upgrade homes both on and off the mains gas grid and is comprised of £286.8m for low-income households heated by mains gas through a third phase of Local Authority Delivery (LAD) and up to £152.2m for low-income households off the gas grid through the Home Upgrade Grant (HUG) Phase 1.
- 2.5 The outcomes for homeowners are in line with the previous LAD schemes. Through HUG funding there is an additional focus on homes that are off the gas grid and providing low carbon heating alongside fabric measures.
- 2.6 CPCA agreed via an MOU in November 2021 for £118.4m (attached as Appendix 2) to deliver funding to homeowners and private landlords with eligible tenants. The fund is split into LAD Phase 3 (£84.34m) and HUG Phase 1 (£34.05m). The Sustainable Warmth Fund scheme is scheduled to end on 31st March 2023. Delivery via this scheme is only just starting and extension of time to deliver is extremely unlikely.
- 2.7 The recovery plan (June 2022) forecast a max spend of ~£70m. Procurement of suppliers has not completed yet and the current Managing Agent for LAD2 has only just contracted for Sustainable Warmth activity. Capability and capacity to deliver are not yet known.
- 2.8 Re-forecasting for the scheme mid-point review (submitted 12th August) led to further reduction in max spend forecast to a maximum of ~£56m.

- 2.9 Unspent funds must be returned to BEIS, within the terms of the MOU they can request early repayment. They are asking for early return of £62,619,025 within 30 days of the MOU variation letter dated 5 August 2022. This requires CPCA Board agreement.
- 2.10 Returned funding may be made available to similar schemes or these monies may be returned to HM Treasury to reinvest or reduce the capital sum against which this was funding was borrowed 2 years ago. This demonstrates effective management of public money as we have identified we cannot spend the funds in this scheme.
- 2.11 Local Impact: The return of ~£62.6million from the fund of £118.4million is split across the collection of smaller funding allocations in 64 Local Authorities. There is no impact on Cambridgeshire and the Local Authorities that constitute the Combined Authority region as they are participating in Sustainable Warmth funded schemes through another delivery consortium and are not funded from these monies.
- 2.12 There is very little chance that the delivery period for LAD3 and HUG1 will be extended. This is because the funds for the current phases come from Government borrowing in FY 2020/21 and there is a responsibility to return funding that will be unused in this phase. Also the direction of scheme policy scope is moving towards HUG style measures and a bidding phase for HUG phase 2 is expected in the next few months.
- 2.13 There is no current delivery completed in Sustainable Warmth and half of the delivery period has now passed. There is work ongoing to maximise our delivery of Sustainable Warmth. This involves building both the project team, and installer, capability and capacity. This will have significant impact in the time remaining on this scheme and will provide larger benefits to the delivery of Sustainable Warmth and future projects.
- 2.14 Lessons must be learned from this and prior scheme underperformance to ensure the same issues do not occur in future initiatives. The complexity, difficulty, and greater exposure to risk from aggregating delivery across a large territory should be better assessed in future schemes and compared to the ability for Local Authorities to be funded to deliver for themselves as some have been able to do through grant funding agreements. This will lead to a better balance of delivery and monitoring and enable Local Authorities to be supported to grow their local delivery capability through shared good practice, installer networks, and the development of required Green Skills and Qualifications.
- 2.15 Green Skills are an important part of the future for the region through the delivery of Net Zero targets for 2050 and lower carbon businesses. The Combined Authority has worked to improve these through

Capital projects

We have supported the College of West Anglia in the development of their proposal to be included in the Fenland District Council's Levelling Up Fund (LUF) bid to develop a Carbon Net Zero Centre at their Wisbech campus. The College through this process has also secured £2m of the Business Board's Recycled Local Growth Funds, which will act as match funding for LUF if that is successful.

We are also supporting Peterborough College (part of Inspire Education Group) in the development of a new Centre for Green Technology. A funding request is currently being considered as part of the recycled Transforming Cities Fund.

Combined Authority revenue funding

We have recently undertaken two procurement exercises; one for the Adult Education Budget (AEB) contracted provision and one for Skills Bootcamps – both procurements have allocated lots for the provision of green skills including those to support the work and skills required by the NetZero Hub.

Additional funds – Department for Education (DfE) Strategic Development Fund (SDF)

We worked with our partner colleges in the development of a successful bid to the SDF for c£2m. “Themed Green Skills for a Sustainable Future” will deliver the following:

- Introducing new green technology to campus locations, to allow for accelerated hands-on learning
- Immersive technology in specialist areas developed and delivered by each of the colleges
- The collaboration will develop modules in green technologies & sustainability for all learners, embedded in core curriculum areas
- CPD for all delivery teams across the whole FE estate to support the delivery of Green Skills
- Establish a regional employer forum. Promoting continuous improvement in the Themes

Domestic Retrofit Supply Chain Market Intelligence & Skills Assessment

The GSENZH commissioned study will report in October. The study will map current retrofit supply chain capacity and projected growth to meet policy targets and the level of current skills provision against the level required for current and forecast future delivery. The outputs of the study will be at a local authority and local enterprise partnership level to inform policy and strategy.

- 2.16 Improving delivery on these types of schemes will not only improve the outcomes for homeowners it will also improve our relationship with BEIS as the Grant Authority, placing GSENZH in a better position for future projects.
- 2.17 Despite the low level of delivery in the LAD2 scheme it has allowed a supply chain to be developed for LAD Phase 3 and HUG1 projects running under the banner of the Sustainable Warmth Fund. A further phase of HUG funding is being discussed to run from March 2023. HMG are also seeking to extend the value of funds in the Energy Company Obligation Scheme (ECO4 from 2022-2026) from £650m a year to £1billion a year.
- 2.18 HUG and LAD projects are funded through separate central government funding but this alongside the MOU with BEIS for operation of GSENZH are indicative of the importance of investment in retrofit to meet Net Zero targets as a major policy strand for Government.
- 2.19 At the end of scheme delivery, 31 March 2023, there is a 30-day period to finalise submissions from installers, managing agents, make final payments, and reconcile data and reporting for the final outturn of the scheme. This means that by 30th April 2023 any remaining unspent funds are to be returned to BEIS as per the conditions of the scheme. Any further underspend will be returned at that point.

- 2.20 The timing mandated in the MOU for the closedown of the scheme and requirement to return funds quickly at the end of a reconciliation process in April does not work well alongside the governance timings for the production and publication of papers for the CA Board. Recommendation c) is to approve delegation of any remaining unspent funds as per the MOU. This would allow the Chief Executive Officer and Monitoring Officer to execute the return without seeking a further decision from the CA Board. The final return of funds would be reported at the next available meeting.
- 2.21 Governance for the project on this scheme is complex because the MOU with BEIS holds the CPCA accountable, the delivery organisation is GSENZH, and the delivery territory is across 64 Local Authorities none of which are constituent member Authorities of CPCA. The Cambridgeshire Local Authorities are part of an established delivery consortium they could not use for LAD2 delivery.
- 2.22 Work is being carried out to define the appropriate structures and Governance Terms of Reference. This is being done in conjunction with the CPCA's Governance Consultant and Head of Programme Management Office to ensure that established procedures and protocols are adhered to.
- 2.23 The governance framework is being developed in line with best practice aligned to the HMT Green Book, Infrastructure and Projects Authority best practice for project delivery, and the BEIS ways of working
- 2.24 This work will most likely agree two or three localised steering groups aligned to a split of the geography across the 64 Local Authorities. These groups will manage the day-to-day delivery and be accountable for addressing the risks and issues that challenge delivery in their area. They will escalate all decisions that require any change to funding profiles locally, supplier contract arrangements or where risk or issues exceed agreed tolerances.
- 2.25 The primary purpose of this level of interaction is to ensure full representation of the participants and the most relevant local knowledge to address delivery challenges and opportunities. This level will also ensure that risks and issues are reported and escalated to the Project Board.
- 2.26 The Project Board will take all operational decisions to improve the delivery of the scheme. They will be responsible for supplier management, tracking overall progress, assessing, and addressing risks and issues that are escalated to them.
- 2.27 Further to the operational management the Project Board will report progress of the scheme to BEIS, GSENZH Board, and CPCA as the accountable body. It is important to ensure that senior officers and Local Leaders in the Combined Authority have good engagement and visibility of progress on this scheme.
- 2.28 The terms of reference for the Project Board will define the delegated authority for financial matters, change control, risk management and reporting.
- 2.29 Escalation of these matters and decisions required will be to the relevant CPCA body (the CA Board or a sub-committee with appropriately delegated responsibility).
- 2.30 The responsibility and accountability of CPCA is laid out in the terms of the MOU for the scheme and this will be used as the basis of the definition of matters that must be reported, discussed, or decided by CPCA.

- 2.31 Recommendation d) is to approve this structure in outline and delegate authority to the Interim Chief Executive to finalise the Terms of Reference, in consultation with the Lead Member for the Environment and Climate Change and relevant executive officers.

Significant Implications

3 Financial Implications

- 3.1 As per recommendation b) the reduction of the grant award and the reprofiled spend of the Sustainable Warmth budgets is requested. As the outturn is currently forecast there are enough funds available to maximise the GSENZH delivery of the scheme in the remaining funds. As GSENZH are unable to fully deliver against the grant award (as discussed in section 2) there are changes required to both the income and expenditure.
- 3.2 There will be a repatriation of funds to BEIS to reflect the forecast underspend for the scheme which will occur during this financial year. For this paper, approval is requested to reduce the grant award by the sum agreed with BEIS as we have submitted our mid-point review and concluded subsequent discussions. The funding has already been received by the CPCA and is held within the treasury management resources, and therefore holds no risk regarding the repayment.

4 Legal Implications

- 4.1 No legal implications noted as the decisions are all within the scope of the MOU between the Combined Authority and BEIS.
- 4.2 The Authority has the requisite power to enter into the proposed Memorandum of Understanding (MoU). The terms and conditions of the MoU attached at Appendix 1 have been reviewed by the Authority's legal team and approved. This will need to be signed with which the legal team will assist with.
- 4.3 Section 111(1) of the Local Government Act 1972 gives a local authority the power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions. This will include doing anything that, in its opinion, is in the interests of, and will bring direct benefit to, its area or any part of it or all or some of its residents. In addition to this, section 1 (1) of the Localism Act 2011 gives local authorities general power to do anything individuals may do unless it is specifically prohibited in legislation.

5 Public Health Implications

- 5.1 The recommendations have neutral implications for public health.

6 Environmental and Climate Change Implications

- 6.1 The report recommendations have a neutral implication for the environment and climate change. While the report identifies that delivery of energy efficiency retrofit is underperforming compared to original forecasts for the Sustainable Warmth scheme. The recommendations are a result of that and will not impact the delivery.

7 Other Significant Implications

- 7.1 Engagement and Consultation discussion on the proposals has taken place across the Combined Authority through the Chief Executives group and Leaders Strategy Meeting and their views taken into consideration.

8 Appendices

- 8.1 Appendix 1 – Sustainable Warmth MOU – Return of Grant Funding – Letter 5 August 2022
- 8.2 Appendix 2 – Memorandum of Understanding for Sustainable Warmth Competition (redacted)

9 Background Papers

- 9.1 [CA Board 30 June 2021 - Item 4.5 - Authority to spend for the Greater South East Energy Hub](#)
- 9.2 [CA Board 26 January 2022 - Item 3.5 - Greater South East Energy Hub Mobilisation of Schemes and Re-profiling of Budget](#)