

Greater South East Net Zero Hub LAD 2 (Green Homes Grant) and Sustainable Warmth Programme Update

To:	Business Board
Meeting Date:	11 July 2022
Public report:	Yes
Lead Member:	Acting Chair of the Business Board, Andy Neely
From:	Deputy Chief Officer Business Board and Senior Responsible Officer, Growth Works, Alan Downton Head of Greater South East Net Zero Hub, Maxine Narburgh
Key decision:	No
Recommendations:	The Business Board is recommended to: Note the performance of the LAD 2 (Green Homes Grant) and Sustainable Warmth Programme.

1. Purpose

- 1.1 To provide an update on the financial and non-financial performance of the LAD 2 (Green Homes Grant) and Sustainable Warmth Programmes.

2. LAD 2 (Green Homes Grant) Programme

- 2.1 The Greater South East Net Zero Hub was awarded £78.35m of LAD 2 funding in January 2021 for a retrofit programme, commencing in April 2021 and originally ceasing on 31st March 2022. The delivery end date was then extended for all the Net Zero Hubs to 30th June 2022. While no other Hubs have quantified their anticipated underspends, every Hub in the country had requested an extension to the LAD 2 (Green Homes Grant) programme. On 9th June 2022, the Department for Business, Energy and Industrial Strategy (BEIS) granted an extension to all the Net Zero Hubs until 30th September 2022. There will be no further extensions beyond this date.
- 2.2 A paper was presented to the Combined Authority Board on 26th January 2022 which explained the performance and constraints / issues, and setting out an estimated LAD 2 underspend of £25-£30million. On 28th January 2022, the Net Zero Hub produced a recovery plan which indicated a projected spend to 30th June 2022 of £45m. In response to a request from BEIS, on 31st March 2022 the Combined Authority returned £22m of the projected underspend for redistribution.
- 2.3 Due to a higher than anticipated quality failure rate and available capacity for assessors and installers, the level of forecast delivery further reduced and an updated forecast was submitted to BEIS on 11th April 2022, reducing projected spend to £12m by 30th June 2022. With the extension now being granted to 30th September 2022, it allows the Greater South East Net Zero Hub to expend a further £13m of grant funding, allowing 2,800 homes to be retrofitted, taking the total programme spend up to £25m out of the original £78m. This will mean a further c.£30m will be returned to BEIS once the programme finishes on 30th September 2022.
- 2.4 The current position of the Managing Agent LAD 2 pipeline is positive with regard to 2,945 surveys and 2,230 whole house plans being completed, with 1,097 jobs allocated to installers. If the installer supply chain is able to deliver the pipeline of work within the time constraints, the target spend will be achieved.

3. Sustainable Warmth Programme

- 3.1 The Greater South East Net Zero Hub bid for, and was awarded, £118million of Sustainable Warmth funding in January 2022, on behalf of 64 local authorities. The program was originally due to commence in April 2022 and run for a year to the end of March 2023.
- 3.2 A paper was presented to the Combined Authority Board on 26th January 2022 explaining the performance and constraints / issues of the LAD 2 (Green Homes Grant) programme which centered around supply chain capacity to deliver (surveyors, assessors and installers). Noting these issues, the Hub has worked to increase the number of installers on the Energy Efficiency Measures DPS (now at 56), and 26 installers are now contracted to undertake works. Around 40-50 installers are estimated to be required to deliver the level of funding that

the Net Zero Hub secured. The number and quality of Retrofit Coordinators is at required capacity and Retrofit Assessor capacity is on track. However, the capacity of the supply chain remains insufficient to deliver the funding, and securing additional installer capacity is required to meet our target spend.

- 3.3 As set out in paragraph 2.1, the LAD 2 programme has been extended to the end of September 2022. While this is good news for LAD 2 delivery, the supply chain for retrofit works is finite. Therefore, when previous programmes are extended, it has an automatic impact on the delivery plan for the next programme. This has been seen with LAD 1, which was extended to overlap with LAD 2 delivery and resulted in some local authorities in the Greater South East area not engaging with LAD 2, as their supply chain and resources were fully committed continuing to delivery LAD 1.
- 3.4 Given this precedent, the Mayor of Cambridgeshire and Peterborough, the Chief Executive of Peterborough City Council and Combined Authority officers met with BEIS and the Parliamentary Under Secretary of State at BEIS, Lord Callanan, on 23rd June 2022 to formally request an extension to the Sustainable Warmth Programme past 31st March 2023. This was declined because of rules set by HMT of transferring funds out of allotted financial years, in this case financial year 2022/23 to 2023/24. A letter sent from Mayor Dr Nik Johnson to Lord Callanan is attached at Appendix 1.
- 3.5 The result is that the Sustainable Warmth Programme delivery window is effectively compressed to 6 months (October to March) rather than 12.
- 3.6 Within the Sustainable Warmth Recovery Plan requested by BEIS, the Net Zero Hub has provided a lower bound estimate of £48.6m and an upper bound estimate of £71.3m of works to be delivered over the 6 months. While this is a significant reduction to the £118m, the Net Zero Hub is forecasting delivery of 43%-63% of the total value of the programme in only 50% of the time. This demonstrates that the Hub has successfully ramped up delivery to the level required by the programme.
- 3.7 The delivery plan, the forecasted levels of grant funding to be expended and the level of return back to BEIS will be discussed by the Combined Authority Board at its meeting on 27th July 2022.

4. Key Issues

- 4.1 Insufficient surveyors, assessors, installer capacity and expansion of available supply chain is a key constraint.
- 4.2 The Net Zero Hub currently has a single contractor acting as Managing Agent across the region, utilising the Dynamic Purchasing System (DPS) for installers. Whilst the supply chain has cited a potential capacity of £29m/month, the actual capacity being realised is significantly less, with £5m likely to be the maximum that can be delivered with the 26 suppliers contracted. Reasons for not engaging in the scheme delivery include no capacity due to working on other government schemes and a significant amount of work in the private sector which has less paperwork requirements.
- 4.3 The Government-funded programmes require PAS2035 delivery, and this work can only be carried out by accredited installers who are Trustmark accredited. Of 2,668 registered installers for energy efficiency measures, only 469 (18%) operate in the south-east which has

46% of the population.

- 4.4 Due to the supply chain being the limiting factor, additional installer resource has been sought through additional procurements. With the closure of the LAD Phase 1 schemes and a delay in the commencement of the next phase of the Energy Company Obligation (ECO4), there is a short window in which additional supply chain capacity has become available. The Net Zero Hub is seeking to secure this via alternative procurements.
- 4.5 Our timeline for contracting with new delivery partners/installers is the end of July 2022, and we have advertised for £60m of installation capacity. The lower bound estimate allows for £18m (30%) to be contracted and the upper bound estimates £30m (50%). There is a six-month delivery window (October 2022 - March 2023) for the installation of measures, which includes the winter period and a short contracting period for installers, and this has been taken into account in the estimates above, assuming the procurement is successful.
- 4.6 BEIS may request funding back ahead of the conclusion of the procurement and contracting of installers. This presents a risk that, should BEIS request funding back based on a 30-50% contracting estimate but the procurement exceeds expectations, new delivery partners will be secured but the full amount of funding will not be available for delivery, resulting in unfulfilled contracts. This would impact our reputation with the supply chain and result in lost opportunity for households in the region, as capacity to deliver would have been available, but funds already returned. As part of our discussions following the response from BEIS to the Delivery Plan, we will request that BEIS do not initiate any claw back until after the conclusion of the procurement.
- 4.7 Local Authorities requesting to be part of the Net Zero Hub consortia were those with limited capacity/capability to self-deliver. Funding allocations were agreed at an LA level and there will need to be a process of consultation and agreement on the approach taken to reduce the number of homes that can be delivered within the Sustainable Warmth timeframe. A formal response is pending from BEIS on the submitted Recovery Plan and next steps. The Combined Authority's Executive Team and Leaders will be kept informed of outcomes of these discussions and decisions by BEIS.

5. Opportunities

- 5.1 A workshop has been scheduled for 11th July 2022 with the Greater South East Net Zero Hub and its contractors and BEIS to discuss and document 'lessons learnt' from the LAD 2 (Green Homes Grant) programme. Each national Net Zero Hub will take part in a similar review with BEIS.
- 5.2 Prior to this workshop, to gain further insight across sectors to the barriers of engaging in retrofit funded programmes and solutions to scale the industry, the Greater South East Net Zero Hub set up an internal working group in May 2022. This includes two members of the Business Board (Nitin Patel as the chair and Mike Herd), the Combined Authority's Deputy Section 73 Finance Officer, and officers within the Combined Authority – Net Zero Hub, Business Directorate and Skills Directorate. Below is a summary of the purpose and objectives of the group.

Purpose of the group:

- To understand the supply chain and skills constraints on the LAD 2 (Green Homes Grant) programme and be a critical friend in evaluating the delivery plan for the Sustainable Warmth programme.
- To act as a champion and ambassador to promote the scheme in their day-to-day activities.
- To identify any contacts / links / experience they have to add value to our work.

Objectives of the group:

- To be responsible for developing opportunities to address issues and constraints, produce an action plan with clear deliverables, timelines and accountability which can:
 - Identify where we as a group can directly influence from a regional perspective (Cambridgeshire and Peterborough Combined Authority) on:
 - Skills
 - Supply Chain capacity building
 - Materials
 - Manufacturing
 - Identify where we as a group can work with the Greater South East Net Zero Hub Board to influence the wider regional perspective (11 LEPs and 136 Local Authorities) on:
 - Skills
 - Supply Chain capacity building
 - Materials
 - Manufacturing
 - Identify wider opportunities to address 'market failures' and/or to adapt existing grant funding agreements which would require changes from central government. These will then be used in discussion with the Government to influence thinking in terms of policy and funding freedoms to stimulate supply chain, capacity building, etc.
- To set up fortnightly performance reporting to the Combined Authority's Executive and Leaders.

5.3 An outcome of this working group has been a cross sector round table hosted by Cambridge Clean Tech to further understand the challenges faced in delivering and entering into the retrofit market. The outcomes and key learnings from the event will be used to shape future industry engagement and initiatives to support the scaling of the industry and shaping of programmes for future delivery.

5.4 The Hub procured Turner & Townsend to support the procurement of additional installers via Procure Plus DPS (set up by the North West Hub). At least seven additional suppliers have indicated via soft market testing that they would be interested in delivering in the south east region. Securing additional capacity could increase delivery from a forecast £5m/month (Warmworks) to up to £15m/month. This will not be determined until we have completed the procurement.

5.5 In addition, the Combined Authority will also be reviewing the Net Zero Hub resource needs in order to future proof it, and there will be an independent review of the governance. In the short term, for at least six months there will be additional support bought in, including an interim programme director and at least two interim senior programme managers.

Significant Implications

6. Financial Implications

6.1 As an update paper there are no direct financial implications.

7. Legal Implications

7.1 There are no significant legal implications at this point.

8. Public Health implications

8.1 No public health implications.

9. Environmental and Climate Change Implications

9.1 No environmental or climate change implications.

10. Other Significant Implications

10.1 None.

11. Appendices

11.1 Appendix 1 – Letter from Mayor Dr Johnson to Lord Callanan

12. Background Papers

12.1 None.