

**CABINET  
3 DECEMBER 2019**

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**WARM HOMES PROJECT**

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**Responsible Cabinet Member -  
Councillor Jonathan Dulston, Stronger Communities Portfolio**

**Responsible Director -  
Ian Williams, Director of Economic Growth and Neighbourhood Services**

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**SUMMARY REPORT**

**Purpose of the Report**

1. The purpose of this report is an update on the previous Cabinet report of 9 January 2018, in relation to approval to participate in a Tees Valley partnership to deliver Warm Homes Fund project (WHF) to agree to share financial risk with four Local Authority partners.

**Summary**

2. In July 2017 National Grid and Community Interest Company, Affordable Warmth Solution (AWS) established a £150m Warm Homes Fund (WHF).
3. In 2017, in round 1 as part of a consortium bid led by Northumberland County Council, a consortium of seven local authorities including Darlington, registered housing providers and community partners made a joint bid and it was announced on the 23 October 2017, that the bid was successful. The initial bid secured approximately £1.8 million. Whilst this bid was successful, the number of measures delivered were much higher in Northumberland than any of the other partners.
4. The funders recognised the strength of the consortium bid and have since welcomed further bids in Years 2 and 3 of the funding cycle. A further Northumberland-led bid for funding was made in round 2, however, this was unsuccessful.
5. In early 2019, a round 3 bid for funding was submitted in February by a consortium of the Tees Valley Affordable Warmth Partnership, led by Stockton Borough Council. The bid for £4,054,688 was approved in April 2019. However, the offer was rejected in May 2019 due to some technical issues and it was not possible to amend the agreement.
6. A round 4 bid was submitted to AWS on 26 September 2019 again by the Tees Valley Affordable Warmth Partnership for £4,065,284.

7. The bid includes a consortium of the Tees Valley Affordable Warmth Partnership, led by Stockton Borough Council, as detailed in paragraph 19.

### **Recommendations**

8. It is recommended that:-
  - (a) Subject to successful award and acceptance of grant by Stockton Borough Council that participation in the Warm Homes Fund Partnership is continued to deliver energy efficiency measures across the Borough.
  - (b) The potential clawback as detailed in paragraph 36 is underwritten by the Council.
  - (c) The underspend on Housing Investment Programme Capital Grant (SHIP3) is allocated to Warm Homes Project to mitigate the potential clawback risk.

### **Reasons**

9. The recommendations are supported by the following reasons:-
  - (a) Participation in the project will deliver energy efficiency improvements for qualifying residents in the Borough. Funding availability elsewhere is now greatly reduced compared to previous years.
  - (b) Fuel poverty levels in the Borough will be reduced and associated problems will be reduced.

**Ian Williams**  
**Director of Economic Growth and Neighbourhood Services**

### **Background Papers**

- (i) Cabinet report 9 January 2018

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S17 Crime and Disorder	There are no implications on crime and disorder as a result of this report.
Health and Well Being	The health and wellbeing of residents living in properties with successful heating replacement systems will benefit from this project.
Carbon Impact and Climate Change	By installing modern, more energy efficient heating solutions there will be a positive impact on carbon impact and climate change.
Diversity	There are no implications as a result of this report.
Wards Affected	All qualifying residents in homes in all Wards have the potential to benefit from this scheme.
Groups Affected	Most vulnerable and low-income families have the potential to benefit from this project.
Budget and Policy Framework	There is no impact on the Council's Budget or Policy Framework.
Key Decision	Yes
Urgent Decision	No
One Darlington: Perfectly Placed	The Warm Homes Fund Project will have a positive impact on One Darlington.
Efficiency	There is no impact on the Council's Efficiency agenda.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

## MAIN REPORT

### Information and Analysis

10. Around 4 million UK households are in fuel poverty, unable to heat their home to the temperature needed to stay warm and healthy. As well as being on low incomes many of these households are also faced with the additional burden of relying on heating systems that are expensive to run and/or inadequate for their needs. Furthermore, because of their circumstances or property type they may not currently be able to benefit from existing mandated schemes.
11. From a local perspective Darlington has a good opportunity to benefit from the WHF project. Fuel poverty levels when last recorded in 2015, showed that 14.1% of residents were in fuel poverty representing 6,663 households. We have approximately 2,040 households not connected to the gas network. These are naturally higher in rural wards without a gas network but there are still significant numbers in gas supply network areas not connected to a gas supply. This likely means that they are using expensive and inefficient electric heating systems. Those using electric heating systems are more likely to be in fuel poverty because running costs are significantly higher. There are approximately 2,600 households in Darlington that use electricity as their main source of heating.
12. In July 2017 National Grid and Community Interest Company, Affordable Warmth Solution (AWS) established a £150m Warm Homes Fund (WHF) designed to support local authorities, registered social landlords and other organisations working in partnership with them, to address some of the issues affecting fuel poor households. The purpose of the grant funding was to address some of the issues

relating to fuel poverty.

13. The bid process required expressions of interest by 31 July 2017, followed by a detailed bid by 8 September 2017. Initially a partnership of all five Tees Valley authorities had intended to collectively bid to the fund, however we were subsequently invited to join a larger regional bid led by Northumberland County Council.
14. The consortium benefited from the successful track record of Northumberland County Council in delivering positive outcomes funded with the Central Heating Fund in 2016/17.
15. There were some concerns raised by Tees Valley Authorities about the management and delivery of the scheme, and disappointment about the inequality of the distribution of funding and, as a result of this, officers involved in the project agreed to look at working up a Tees Valley bid for future funding rounds and Stockton Borough Council offered to lead on this. Other partners to the bid would include Thirteen Housing Group, Middlesbrough Environment City and the Citizens Advice Bureaux.
16. A commitment was made to Stockton Borough Council in December 2018 to support them in developing and submitting a bid in round 3. A detailed bid for funding was worked up and submitted to Affordable Warmth Solutions in February 2019 and the bid for £4,054,688 was approved in April 2019. The breakdown of funding was as follows:-  
  

Category 1:	£2,904,571
Category 2:	£771,250
Category 3:	£378,867
17. An offer was made by AWS for £4,054,688 requiring Stockton Borough Council, as the Lead Authority, to sign a Recipient Agreement. However, Stockton Borough Council's Legal team noted that there was a clause in the Recipient Agreement that created an absolute requirement for them to provide their own funds. This would have meant that at day one of the project, the risk to Stockton Borough Council (as the sole financially responsible body) would have been £1.92m. During their discussions Stockton Borough Council were previously led to understand that if there was a loss of third-party funds, such as the loss of ECO funding, that they would be allowed to reconcile the project and cease the scheme should alternative funding later not be available however this was not possible. On this basis, a decision was made by Stockton Borough Council to reject the offer at the end of May 2019.
18. The partnership was not precluded from making a further application in future bidding rounds. It was agreed that a further bid would be made by the consortium in round 4 and Stockton Borough Council would undertake preparatory work in order to minimise risk and to seek agreement to share the risk amongst the Local Authority partners.

19. A round 4 bid for funding was subsequently made on 26 September 2019. The bid included a consortium of the Tees Valley Affordable Warmth Partnership, led by Stockton Borough Council, the partnership includes:

(a) Local Authorities

- (i) Darlington Borough Council
- (ii) Hartlepool Borough Council
- (iii) Middlesbrough Borough Council
- (iv) Redcar & Cleveland Borough Council
- (v) Stockton Borough Council – lead authority

(b) Registered Social Landlords

- (i) Thirteen Group

(c) Community Groups/Partners – (funded under separate Category 3 Funding)

- (i) Middlesbrough Environment City
- (ii) Stockton CAB
- (iii) Northern Gas Networks
- (iv) Communitas Energy

20. Subject to successful award and acceptance of grant by Stockton Borough Council the total funding that will be provided to administer the Programme is:-

<b>Type of Household:</b>	<b>Category 1</b> (urban homes and communities)	<b>Category 2</b> (rural homes and communities)	<b>Category 3</b> (Advice)
<b>Amount of funding:</b>	£2,915,167	£771,250	£378,867

21. A Memorandum of Understanding (MOU) will operate between all consortium partners to manage the expectations and relationships between partner members. This MOU is not onerous and does not specify specific performance criteria for any member.

22. Funding will be spent delivering installations and improvements on a needs basis across the Tees Valley and each partnership member area.

23. The WHF categories are outlined below. The three funding areas are as follows.

(a) **Category 1:**

Urban homes and communities – we anticipate this will involve new gas heating systems which provide space heating and domestic hot water. It could also include heat network solutions. Under this category new gas connections will continue to be undertaken by Gas Distribution Networks and funded through the Fuel Poor Network Extension Scheme. The WHF is therefore targeting the ‘in-house’ systems.

(b) **Category 2:**

Rural homes and communities – some of the most severely fuel poor households are those without a mains gas connection in rural locations. This

category will therefore primarily focus on 'non-gas' solutions which may include air source heat pumps, oil and LPG.

(c) **Category 3:**

Specific energy efficient/health related solutions – this may involve national or regional programmes which bring together relevant organisations and charities to promote energy efficiency and/or health related programmes in relation to fuel poverty. This is not intended to fund new central heating systems. Community partners will assist greatly in providing Category 3 services.

24. The funding is to install first time central heating in homes that qualify under the project criteria. This includes both 'on gas areas' and those 'areas off gas'. Assistance will be given to residents who are able to have a gas supply installed because they are in an area that has a gas main supply. The heating options available are gas central heating, LPG and air source heat pumps.
25. The priority is to provide gas central heating to those who are able to access a gas supply. Other measures can be provided to residents living in off gas rural areas. All tenure types can benefit under the project, owner occupiers, private renters and those living in social housing. It is both the property and occupiers that need to qualify for assistance. The property must not already have central heating and must need a central heating system.
26. The specific objectives of the fund are to increase comfort in non-gas, fuel poor households, to reduce fuel bills and improve health and therefore reduce fuel poverty. To maximise the impact of the WHF, all properties are expected to be insulated to the recommended industry standards and bidders and their partners are encouraged to seek additional funding to ensure these standards are met. The aims of the fund are to reduce bills, increase comfort in non-gas fuel poor households, and improve health outcomes for some of the most severe levels of fuel poverty.
27. The fund requires one or more of the following criteria to apply:
  - (a) The household must be:
    - (i) Within the 25% most deprived areas in the UK measured by the Index of Multiple Deprivation (IMD); or
    - (ii) Eligible for support under Home Heating Cost Reduction Obligation (HHCRO) in England (relevant means tested benefits); or
    - (iii) In fuel poverty based on the latest government definition; or
    - (iv) In one of the least energy efficient properties (rated E, F and G based on EPC ratings).
28. The Parties are aware that the Funding Agreement requires additional Third-Party Funding to deliver the Programme.

29. The table below confirms the funds that have been secured by funders for the Programme:

<b>Third party funder</b>	<b>ECO funding</b>	<b>Renewable Heat Incentive (RHI) income</b>	<b>Private landlord contributions</b>	<b>Thirteen Group</b>	<b>Total Third-Party Funding</b>
<b>Amount</b>	£933,400	£800,000	£140,000	£126,600	£2,000,000

30. Finding properties and matching qualifying households is the most challenging part of the project. The Private Sector Housing Team supported by the Communications Team will help to identify the right residents and properties via targeted publicity and press releases.
31. From initial work that has been carried out by the Private Sector Housing Team, 642 properties have been identified to benefit from Category 1 and 7,000 households from Category 3. Work is ongoing to identify potential properties benefiting from Category 2.
32. Stockton Borough Council will provide project management for the consortium, which will include overall project management and administration, procurement of installers and trade, and provision of a call centre.

### **Financial Implications**

33. The risk at the start of the project to each Local Authority would be £316k diminishing to zero by the end of the project.
34. All the funding for this project comes from external sources, which covers project management and delivery. Darlington Borough Council's commitment is staffing time from the Private Sector Housing Team and communication to help identify appropriate properties within the Borough.
35. Stockton Borough Council undertook a procurement exercise in anticipation of a positive outcome of the application and have been able to procure approximately £933k of ECO and £650k of RHI as third-party funding through the tender process which will be ring-fenced until February. This will minimise the risk of changes to ECO or RHI during the lifetime of the project.
36. As part of the agreement there is potential of the scheme administrator, AWS, exercising a right to clawback funding for any particular property that has benefitted from funds to improve their heating system that didn't meet the criteria. However, the five local authorities have agreed that in the event of the administrator exercising their right of clawback, then value would be split equally between each of the five authorities. The maximum liability for each local authority is:

<b>Local Authority</b>	<b>% of liability</b>	<b>Third Party Funding for the Programme £</b>
Stockton	20%	£316,000.00
Darlington	20%	£316,000.00
Middlesbrough	20%	£316,000.00
Hartlepool	20%	£316,000.00
Redcar and Cleveland	20%	£316,000.00
<b>TOTAL</b>	<b>100%</b>	<b>£1,580,000.00</b>

37. Over the duration of the scheme, the value of the clawback will reduce.
38. The likelihood of any clawback is low as there are measures in place to mitigate this:-
- (a) The employment of a Project Manager at Stockton Borough Council to focus solely on the monitoring and administration of the programme.
  - (b) Procurement evaluation of the Contractor and their project applications was undertaken before entering into the Contract.
  - (c) The Contractor has formally confirmed that they are able to obtain ECO funding by providing a signed letter from four of the main energy suppliers.
39. Whilst we believe the risk is minimal and managed, we do have an underspend of £105,000 from a previous scheme, Single Housing Investment Programme Capital Grant (SHIP3) that could be used to offset should any risks ever materialise. Stockton Borough Council hold the risk against ineligible installations and have set aside a contingency budget of £50,000.

### **Legal Implications**

40. The general power of competence power introduced by section 1(1) of the Localism Act 2011 allows local authorities in England to do anything an individual can do, unless prohibited by law (and subject to public law principles).
41. There is no relevant prohibition and the exercise of functions will be subject to public law principles. The grant funded purposes for the benefit of Darlington residents, will have a positive impact on and will promote or improve the economic, social, or environmental well-being of their area.
42. In this case the Council is delegating to Stockton Borough Council the receipt of relevant grant funding and the carrying out of a procurement process and management of the project for an installer(s) to deliver the grant funded purposes as further described in this report.
43. The sharing of the financial risks between the participating councils will be documented in a Risk Sharing Agreement by which the participating authorities will share financial risk equally and to including the maximum financial liability of

Darlington Borough Council of £316k subject to the mitigating factors described in this report.

44. Relevant contractual arrangements and warranties for the works will be in place directly between the installer(s) and residents.

#### **Procurement Advice**

45. Stockton Borough Council are the lead authority for the project. Therefore any procurement will follow their processes as documented in the Risk Sharing Agreement.