



Report to Policy Committee

Author/Lead Officer of Report: Nathan Robinson
(Decarbonisation Manager, Housing & Neighbourhood Services)

Tel: 0114 205 2609

Report of: Ajman Ali, Executive Director of Operational Services
Report to: Finance Committee
Date of Decision: 10th July 2023
Subject: Social Housing Decarbonisation Fund (SHDF) 2

Has an Equality Impact Assessment (EIA) been undertaken?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
If YES, what EIA reference number has it been given? 1442				
Has appropriate consultation taken place?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Has a Climate Impact Assessment (CIA) been undertaken?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Does the report contain confidential or exempt information?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-				
<i>"The (report/appendix) is not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended)."</i>				

Purpose of Report:

The Council has secured a grant funding offer of £4,007,500 through the Govt's Social Housing Decarbonisation Fund (SHDF) 2 scheme. This funding would contribute toward the delivery of energy improvement measures to approximately 370 Council homes.

This project directly supports Sheffield's strategies and ambitions centred on net zero carbon by 2030, tackling fuel poverty and providing affordable warmth. The associated government funding is time limited. To not access this would be a missed opportunity. The £4m will offset some of the project cost, reducing some of the pressure on the council housing capital programme, and indeed the wider Housing Revenue Account (HRA).

The purpose of this report is therefore to seek approval for the Council becoming the accountable body for £4,007,500 grant funding from DESNZ (Dept for Energy Security & Net Zero).

Recommendations:

That the Finance Committee:

a) approves the Council becoming the accountable body for £4.07m of grant funding from Tees Valley Combined Authority for the SHDF 2 scheme, subject to the grant terms not being materially different to those set out in this report.

Background Papers:

(Insert details of any background papers used in the compilation of the report.)

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: Alex Hill
		Legal: Richard Marik
		Equalities & Consultation: Ed Sexton
		Climate: Jessica Rick
	<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>	
2	SLB member who approved submission:	Ajman Ali
3	Committee Chair consulted:	
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Committee by the SLB member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: Nathan Robinson	Job Title: Housing Decarbonisation Manager
	Date: 29 June 2023	

1. PROPOSAL

- 1.1 SHDF2 is a government-funded grant scheme (through the Dept of Energy Security & Net Zero) designed to improve the energy performance of social rented homes, on the pathway to Net Zero 2050. The SHDF aims to deliver warm, energy-efficient homes, reduce carbon emissions and fuel bills, tackle fuel poverty, and support green jobs.
- 1.2 The Government launched its application window for SHDF2 funding in September '22. The Council was notified in March '23 that its bid for £4,007,500 had been accepted, and this will deliver important energy improvements to approximately 370 homes across the city.
- 1.3 The Council pursued its SHDF2 bid via a consortium, led by the Tees Valley Combined Authority (TVCA) and the Northeast & Yorkshire Net Zero Hub. Several consortia options were considered, and this was seen to be the strongest option. South Yorkshire Metropolitan Combined Authority (SYMCA) signalled interest in leading a more local, regional consortium bid, though at the time were unable deliver this.
- 1.4 Under Wave 1 of the SHDF, consortiums were very successful in their applications, with 159 organisations being represented through the 55 successful bids. Indeed, DESNZ had been actively encouraging and supporting consortia formation through their Social Housing Retrofit Accelerator (SHRA) programme. A consortium approach is considered to make the best use of the strengths of different organisations, provides strategic continuity and can help to unlock different sources of funding or support.
- 1.5 The TVCA/ Hub consortium consists of 20 Registered Providers. It consists of a range of LAs and HAs, encompassing over 16,000 energy measures, with a total project value of £80m. Being part of the consortium does not in any way restrict the Council's plans, as the Council retains full control over the project, including the procurement pathway.
- 1.6 SCC's component of the bid comprised of 370 properties, all non-traditional, system-built houses, primarily targeting external wall insulation and other measures. The project will also address important structural integrity works. The grant fund contribution is £4.07m (which is the maximum value the Council can claim), with the total scheme cost (i.e. total funding for the consortium) amounting to £32.4m.
- 1.7 This project crucially addresses a 'fabric first' approach toward retrofit, improving the thermal retention of homes. It also targets some of our worst/ lowest EPC rated properties. The scheme is in a relatively advanced stage with designs, planning consent, procurement strategy and financial approvals all in place to ensure a swift mobilisation.

Distribution of the grant is subject to the relevant Council approvals.

- 1.8 The window for expending the SHDF2 grant runs from April 2023 to September 2025, which is just over two years in total. Our project is forecast to complete in October 2024, significantly within the time limit. It is therefore proposed that the Council becomes the accountable body in respect of the SHDF2 scheme.
- 1.9 As part of the scheme, the Council will enter into: grant agreement with TVCA; a collaboration agreement with every member of the consortium (including TVCA); and an information sharing agreement with the North East & Yorkshire Energy Hub (NEYHB)/ Tees Valley Combined Authority (TVCA) to accept the grant funding and deliver the SHDF2 scheme, subject to separate Council approval.
- 1.10 The NEYHB/ TVCA will draw down SHDF2 funding from DESNEZ on a monthly basis based on the cost submissions and invoices submitted by the Council.
- 1.11 Notably, this project has been approved via the Council's capital approval gateway process. The total project funding has been secured from the Housing Revenue Account meaning that these important works can proceed if for any reason the funding couldn't be claimed.
- 1.12 The Council's project is split across two parts:
 - i) 253 solid wall houses that will receive external wall insulation (approx £11m).
 - ii) 117 Airey type, system-built properties requiring significant structural interventions to assure their longevity, part of which is to insulate through an outer-constructed wall with cavity infill (approx £13m).
- 1.13 The contract for the 253 solid wall properties has already been tendered and Equans were successful. The contract for the 117 Airey type properties is currently being evaluated with the successful contractor being appointed towards the end of July 23.
- 1.14 There will be careful governance and programme management by the Council via regular contract meetings. A project officer is being appointed directly to the scheme to manage the specific requirements of the grant fund in terms of reporting and governance.

2. HOW DOES THIS DECISION CONTRIBUTE?

- 2.1 This decision will contribute to the ambitions within the Corporate Plan of achieving net zero by 2030, reduce fuel poverty and improve both energy efficiency and thermal comfort to 370 Council homes across Sheffield. Furthermore, it contributes toward the Housing Revenue Account

Business Plan target of all Council homes reaching EPC C by 2030.

3. HAS THERE BEEN ANY CONSULTATION?

- 3.1 There is no specific requirement to consult for this scheme. However, over a significant period, tenants have been consulted in regard of the works, highlighting the benefits it will deliver and identifying some of the potential disruption.
- 3.2 As part of the engagement plan individual visits to each property were made and customers shown images and given a further explanation of what their home will look like. Tenants were also asked to provide details of their household in order to help plan engagement events and cater for any special requirements – with support from tenant liaison officers.
- 3.3 There have been several engagement events held so far to advise residents and owner occupiers what work will be carried out and how it will affect them. Future events will take place soon.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality Implications

- 4.1.1 The funding is designed to help tackle social homes in EPC bands D-G. The EIA therefore notes positive impacts in relation to Poverty & Financial Inclusion.

4.2 Financial and Commercial Implications

4.2.1 Tees Valley Combined Authority – Social Housing Decarbonisation Fund Wave 2 (the “Grant”) (£4,007,956.50)

Capital grant of up to £4,007,956.50 paid to Sheffield City Council (“SCC”) from Tees Valley Combined Authority (the “Funder”). The Funder has received the Grant from the Department of Business, Energy and Industrial Strategy (“DESNZ”).

Key features of the offer letter (the “Grant Agreement”) and terms and conditions are summarised as follows. The Project Manager will need to read, understand, and comply with all of the grant terms and conditions and the Code of Conduct for Grant Recipients and develop an exit strategy to ensure that there are no ongoing unfunded costs when the Grant ends.

4.2.2 Project Details

The Grant is to deliver 1,130 eligible housing retrofit measures to improve energy efficiency of social homes below EPC rating C, provided to 372 properties (the “Project”). The Grant Agreement provides a detailed operational breakdown of activities and costs that are eligible to

be funded by the Grant (see details).

Other Project obligations in the Grant Agreement are as follows:

- Project must be commenced by 1 June 2023.
- SCC must have all necessary planning consents for the Project;
- SCC may only change the Project scope with the Funder's prior written approval;
- SCC can deliver the Project with a delivery partner. SCC retains all liability for acts of any delivery partner in respect of the Project;
- SCC cannot dispose or change use of assets relating to the Project without Funder's prior written consent, subject to conditions (see details). Funder may have right to proceeds of sale (see details). Financial charging of assets permitted with Funder and DESNZ consent (see details); and
- SCC required to prepare Project asset register of all Project assets valued over £300.

4.2.3 **Financial Terms and Conditions**

- SCC is required to supply match funding of £16,936,000 in respect of the Project.
- The Grant will be treated as Conditional and will be subject to clawback if the Grant terms and conditions are not complied with (see details). Additionally may be subject to corrections, where SCC is subject to repayments of previously claimed Grant amounts during the Project (see details).
- SCC and the Funder agree that the Grant is out of scope of VAT. If the payment of the Grant is deemed at a later stage to be a supply, then the Grant is inclusive of VAT
- Grant Commencement Date: tbc once TVCA has signed the agreement with DESNZ.
- Grant End Date: 31 March 2025
- Grant is paid on the following basis:

Financial Year	Percentage	Amount
2023/24	40%	£1,603,182.60
2024/25	60%	£2,404,773.90
Total	100%	£4,007,956.50

- Grant is to be paid monthly in arrears, subject to monthly claims procedure evidencing eligible Project spend (see details). Claims must be submitted by the 4th working day each month.
- Expenditure incurred prior to the Grant Commencement Date may be claimed with the Funder's written consent.
- Grant is subject to 5% retention subject to Funder satisfaction of monitoring and audit monitoring.
- Project income and expenditure forecast must be revised when there is a 10% change in these forecast compared to initial Project budget.

- SCC cannot obtain any duplicate funding in respect of any fully Grant funded elements of the Project. Third party funding may be permitted with the Funder's consent if obtained before the Grant Commencement Date, and the Funder has been made aware of the funding (see details).
- Unless the Funder permits SCC to retain any unspent funding, the Grant must be spent in the relevant profiled financial year and cannot be carried forward. Funder education of future year Grant allocation permitted where SCC underspends on Project.
- SCC must only use the Grant for the Project and associated eligible expenditure, as specified in the Grant Agreement.
- First Grant payment will not be made unless:
 - Funder is satisfied with SCC levels of match and other funding to complete the Project by the Grand End Date;
 - SCC has supplied a certificate of title to land relevant to the Project, compiled by solicitors acceptable to the Funder;
 - Funder has prior receipt of and priorly approved Project specifications;
- SCC is to comply with the following requirements specified in the Grant Agreement:
 - the accounting audit, monthly monitoring and reporting requirements (see details);
 - the documentation, records and evidentiary requirements (see details);
 - the data protection, public relations, intellectual property, information and publicity requirements (see details);
 - the detailed performance management and key performance indicator requirements (see details); and
 - the insurance requirements (see details).
- SCC can only retain unspent Grant with the Funder's prior written approval.
- SCC required to sign Grant Agreement by 15 June 2023. The Funder has permitted an extension to the signature of the Grant Agreement.
- SCC to comply with subsidy control and undertake independent subsidy control assessment in relation to the Project.
- Grant subject to Funder annual review (see details).
- SCC must comply with the risk management obligations contained in the Grant Agreement and maintain an appropriate risk register (see details).
- Grant Agreement contains an approved use period, meaning that assets purchased with the Grant can only be used for the delivery of the Project and associated post-Project activities. We are awaiting confirmation of the approved use period from DESNZ, and significant restrictions or length of restriction period may require additional Committee approval at a later stage.

4.2.4 Collateral and related agreements

SCC must enter into a Data Sharing Agreement with the Funder and

DESNZ.

The Funder has signed a grant agreement with the DESNZ the originating funder of the Grant (the “Originating Grant Agreement”). SCC must comply with the terms of the Originating Grant Agreement, the key terms of which are the same as the Grant Agreement.

Additional to the Grant Agreement, SCC must comply with the following terms in the Originating Grant Agreement:

- SCC and the Funder must not use the Grant for a range of purposes (see details);
- Monitoring to be undertaken using DESNZ Data Management System (see details);
- Funder required to co-operate with SCC on the use of any excess, unused or uninstalled Grant purchased material or equipment (see details);
- Funder must spend 42.5% of its annual funding allocation by the end of the 2023/24 Financial Year, and 57.5% of its annual funding allocation by the end of the 2025/25 Financial Year;
- Ancillary/admin expenditure exceed 15% of Project costs is not eligible expenditure (see details); and
- SCC must comply with environmental responsibilities when undertaken the Project (see details);

SCC is delivering the Project as part of a consortium of other organisations lead by the Funder (the “Consortium”):

- SCC is required to enter into a collaboration agreement in respect of the Consortium (the “Consortium Agreement”);
- SCC cannot leave the consortium without the consent of DESNZ;
- SCC to collaborate with the Consortium in order to deliver the Project;

4.2.5 **End of Project Requirements**

- Project is to be completed by the Grant End Date.
- Project monitoring period ends twenty-eight (28) days after the Grant End Date.
- SCC to produce exit plan three (3) months from to the Grant Commencement Date.
- SCC must assist in the Funder’s and DESNZ’s evaluation of the Social Housing Decarbonisation Fund.
- The Grant maybe subject to External Audit and where requested an audit by an independent reporting accountant.
- Chief Executive and Chief Internal Auditor to sign a declaration at the end of the Project.
- Retention Period: 7 years from the first receipt of the Grant. Sub-contractors that their records are maintained for a period for two years.

4.2.6 **Commercial Implications**

All public sector procurement is governed by and must be compliant with the Grant Agreement and UK National Law. In addition, all procurement in SCC must comply with its own Procurement Policy, and internal regulations known as 'Contracts Standing Orders' (CSOs).

CSO requirements will apply in full to the procurement of services, goods or works utilising grants. All grant monies must be treated in the same way as any other Council monies and any requirement to purchase / acquire services, goods or works must go via a competitive process, comply with the Local Government Transparency Code 2015 and the Grant Agreement. The Portfolio / Service Grant Manager will need to contact the Commercial Services Team for detailed guidance on adherence to these rules when spending the Grant.

4.3 **Legal Implications**

4.3.1 The Council intend to enter into a grant agreement with TVCA. The grant offer letter sets out the legal requirements of the funder (TVCA) and basis of which the Council will become the accountable of the funding.

4.3.2 In the event that the terms of the grant offer letter are materially different before execution, the Council must seek further committee approval of the terms.

4.3.3 The only climate-related statutory duty for the Council is the legal requirement to enforce Minimum Energy Efficiency Standards (MEES) in private rented domestic, non-domestic and commercial properties.

4.3.4 The Council has no specific power or duty to make energy efficiency and low carbon heating upgrades to social rented homes.

4.3.5 However, the Localism Act 2011 provides local authorities with a "general power of competence" which enables them to do anything that an individual can do as long as the proposed action is not specifically prohibited. A purpose of the Act is to enable local authorities to work in innovative ways to develop services that meet local need.

4.3.6 Any contracting arrangements are permitted by the Local Government (Contracts) Act 1997 and should ensure the Council can meet the objectives of the scheme.

4.3.7 The Council must ensure that it complies with the terms of the grant offer letter and any other agreements relating to the project.

4.3.8 The Council must ensure that any agreements made with third-parties in relation to the project reflect the obligations in the grant agreement with TVCA.

4.4 **Climate Implications**

4.4.1 Climate Impact Assessment completed and signed off by the corporate Sustainability team. The project is deemed to deliver a moderate to significant decrease of CO2 emissions compared to previous.

4.4 Other Implications

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 The alternative is not to accept the funding. The Housing Revenue Account (HRA) and the capital programme budget would not benefit from the £4.07m funding in contribution toward this major improvement project.

6. REASONS FOR RECOMMENDATIONS

6.1 The SHDF2 grant provides an excellent opportunity to help fund the retrofitting of some of the least efficient council housing stock across the city.