



Report to Policy Committee

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Report of: Ajman Ali, Executive Director of Operational Services
Report to: Strategy & Resources Committee
Date of Decision: 24th January 2023
Subject: Homes Upgrade Grant (HUG) 2 funding

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 type="checkbox"/>	N/A	<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 checked="" type="checkbox"/>	No	<input 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"The appendix is not for publication because it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended)."</i>				

Purpose of Report:

The Council has secured a grant funding offer through the Govt's Homes Upgrade Grant (HUG) 2 scheme. This funding would be used to deliver energy improvement measures to private sector homes across the city that are off-the-gas-grid, targeting low-income households and thermally poor/ inefficient dwellings (EPC D-G).

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 delivering improvements across the city.

The purpose of this report is therefore to seek approval for the Council becoming the accountable body for HUG 2 grant funding from BEIS and the commissioning of a service provider to deliver the scheme.

Recommendations:

That the Strategy & Resources Committee:

- 1) Approves the Council becoming the accountable body in respect of the HUG 2 scheme;
- 2) Approves the commissioning of a service provider to deliver the HUG 2 scheme

Background Papers:

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

Closed Appendix 1

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:	Terry Fox
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: 17 th January 2023	

1. PROPOSAL

- 1.1 [BEIS have issued an embargo on the publication of the amount of grant funding received by the Council for the HUG 2 scheme. As such, information relating to the value of the grant this report (grant amount/ number of homes to benefit from the grant/value and term of service contract/value of other proposed spending/financial terms and conditions) is set out in the Closed Appendix of this report.
- 1.2 The embargo on publication will be lifted by BEIS following announcement of the HUG 2 funding by the Government and the Closed Appendix of this report will subsequently be published in full].
- 1.3 HUG is a government-funded grant scheme that provides energy efficiency upgrades, renewable energy and low carbon heating to low-income households living in the worst quality, off-gas grid homes in England.
- 1.4 The Council was previously successful in applying for the first round of the Homes Upgrade Grant (HUG). This was back in early 2022 and amounted to £681,816 of funding. The grant was accepted in March '22 and delivery of this project is currently ongoing, due to complete 31st March '23.
- 1.5 The Government launched its application window for HUG 2 funding in September '22. The Council was notified in December that its had been accepted, that will deliver important energy improvements across the city (*see Closed Appendix for further details*). The Council's bid for this funding was founded on a balance of being ambitious in order to maximise the benefit for Sheffield residents, against project assurance and deliverability.
- 1.6 HUG has two key objectives:
- To deliver progress towards the statutory fuel poverty target for England, by improving as many fuel-poor homes as reasonably practicable to a minimum energy efficiency rating of Band C by 2030, with the interim milestone of Band D by 2025.
 - To enable the delivery of the wider Net Zero programme to phase out high-carbon heating for homes off the mains gas grid, by growing supply chains and ensuring such policies do not act to the detriment of fuel-poor households.
- 1.7 The HUG 2 funding becomes available 1st April 2023 and closes 31st March 2025. It will deliver energy improvement measures to homes, including:
- Insulation (cavity, loft, under-floor, external wall, internal wall)
 - Renewable energy i.e. Solar PV
 - Low carbon heating, such as Air Source Heat Pumps

The programme will be delivered across two years (see *Closed Appendix for further spend*).

- 1.8 We will build on lessons learnt from the previous HUG scheme. In addition, there have been a key policy changes and a different delivery model under HUG 2 that will further contribute toward the project being a success. In particular, all off-gas households (EPC D-G) living in the most economically deprived neighbourhoods (income deciles 1- 3) will be automatically eligible for upgrades. In terms of delivery, there is more emphasis on project mobilisation, increased funds per property and a more flexible, bespoke approach to measures in homes.
- 1.9 It is therefore proposed that the Council becomes the accountable body in respect of the HUG 2 scheme.
- 1.10 The Council will enter into an MOU with BEIS to accept the grant funding and deliver the HUG scheme subject to separate Council approval.
- 1.11 The Council will enter into an information sharing agreement with BEIS which subject to separate Council approval.
- 1.12 It is also proposed that the Council will enter into a service contract with a provider to deliver this scheme. There aren't sufficient resources within the Housing & Neighbourhood Service to effectively manage the end-to-end delivery of the project, which encompasses:
 - Taking calls and enquiries
 - Processing applications
 - Household eligibility assessment & verification
 - Property surveys, including PAS2035 retrofit assessments
 - Completion of eligible measures
 - Quality Assurance
- 1.13 The proposed service contract to deliver the scheme will be sourced through SMS Retrofit Partnership & Delivery Framework.
- 1.14 In regard of the remaining grant sum following commission of the service contract, there is provision for the cost of SCC resources to deliver client management of the project. The remainder of the grant sum will be used for communications/ marketing/ engagement. It is currently undetermined how much of this activity with rest with SCC or the contractor, and hence the grant will be apportioned appropriately once this is determined
- 1.15 There will be careful governance and programme management by the Council via regular contract meetings.

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 105 off-gas owner-occupied properties across Sheffield.

3. HAS THERE BEEN ANY CONSULTATION?

3.1 There is no requirement to consult for this scheme.

3.2 When the Council developed its Private Sector Housing Assistance Policy, approved in January 2020, it undertook a consultation process. A survey was available through the Sheffield Consultation Hub during the summer 2019 for homeowners and private rented tenants. One aim of the survey was to gather views from the vulnerable groups that the proposed how the policy should assist, and gather information on private sector residents' living circumstances, the condition of their home and any help or assistance they may require in their home. The Council had regard to the consultation responses when it finalised the Private Sector Housing Assistance Policy. In addition, regard was had to the consultation responses in respect of that consultation, when developing the proposals relating to private sector housing approved by the Executive Co-operative.

3.3 A total of 217 households responded, 125 homeowners and 92 private renters, the main findings were:

- Respondents wanted more housing advice and information on the Council's website and for this to be promoted through social media.
- Respondents thought it would be helpful if the Council provided the following advice and support:
 - Home energy efficiency advice
 - Home insulation help
 - New boiler or heating system help
 - Interest free repayment loan

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality Implications

4.1.1 The funding is designed to tackle inequality focused on households with low income and in fuel poverty; households in EPC bands D-G and with a gross annual income of less than £31k per year. The EIA therefore notes positive impacts in relation to Poverty & Financial Inclusion.

4.1.2 The scheme does not specifically have other eligibility criteria but

benefits are expected for people, including those who might spend more time in their home, in relation to Health & Wellbeing and Disability (physical and mental health), Age (older and younger households), Race (and the need for targeted communications).

- 4.1.3 The EIA also identified the need to respond to geographic and demographic analysis of household take up of the scheme to divert resources as necessary.

4.2 Financial and Commercial Implications

- 4.2.1 Key features of the Memorandum of Understanding (“MOU”) and grant 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.

Financial Terms and Conditions

- Capital grant (the “Grant”). (See *value in Closed Appendix*).
- The Grant will be treated as Conditional and will be subject to clawback if the Grant terms and conditions are not complied with.
- Grant paid to Sheffield City Council (“SCC”) from the funder, which is the Secretary of State for Business, Energy and Industrial Strategy (“BEIS”).
- SCC may be able to claim further grant funding (see *Closed Appendix*) subject to the conditions specified in the Grant Agreement (see details).
- Grant Agreement must be signed by 10 February 2023. SCC must also provide all relevant documentation required by BEIS by the same date (see details).
- Grant Period Start Date: no later than 10 February 2023.
- Grant Period End Date: 31 March 2025. SCC may extend the funding period with BEIS’ agreement, provided request made by 31 December 2024.
- See *Closed Appendix for payment terms*
- Funding must be spent in the relevant financial year and cannot be carried forward. BEIS may require SCC to return any unspent funding at the end of each financial year.
- During the final three months of the 2023/24 Financial Year, BEIS will assess SCC’s use of the funding against projections and may reduce SCC’s final entitlement to ensure that the funding received matches that allocated to the relevant financial year.
- SCC to keep capitalisation of costs incurred when delivering proposal below 15% of total Grant awarded (in all other cases capital funding must not be spent on revenue).
- Eligible expenditure is net of VAT recoverable and the Grant is out of scope for VAT.

- SCC cannot use Grant to generate revenue or make a capital gain (see details) or the grant may be reduced by the gain.
- Parties to work together on allocation of an underspend of the Grant in line with desired outcomes.

4.2.2 **Project Terms and Conditions**

The Grant is to enable SCC to provide energy efficiency and low carbon heating upgrades to low-income homes (households earning less than £31,000 gross per annum) (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).

SCC can request change to the project scope on application to BEIS, provided that the request is made three months before the Grant Period End Date. SCC must meet the evidence requirements for the request (see details).

The Grant Agreement also contains the following project terms and conditions:

- Funding may only be used for properties that are not connected to mains gas for heating purposes.
- Only 10% of the properties relating to the Grant and the Project can be social housing; additionally only 10% of properties relating to the Grant and the Project can be caravan park homes.
- SCC may request a reduction of homes eligible for funding in the Outline Business case subject to BEIS approval. There are no provisions to increase scope.
- All Project works must be completed by the Grant Period End Date.

4.2.3 **General Terms and Conditions**

- The Grant must only use the Grant for the Project and associated eligible expenditure, as specified in the Grant Agreement.
- SCC must not use the grant for a range of purposes (see details).
- The Grant Agreement contains detailed limits on expenditure relating to Project works, per type of property and type of energy remediation work (see details).
- SCC may spend more than the prescribed expenditure cap per property, provided that the average cost of Project works per property does not exceed the limit prescribed in the Grant Agreement on aggregate (see details).
- Funding for an individual measure specified in the Project cannot be combined with any other sources of government funding, although separate works at the same property can be funded from

different funding streams. Properties that received funding for low carbon heating under HUG Phase 1 cannot receive funding for the same works under Phase 2. SCC must introduce controls to ensure households are not in receipt of funding from HUG and other government schemes, apart from Renewable Heat Initiatives (“RHI”).

- Social landlords are required to match fund 50% of the funding for upgrade works related to the Project; private landlords are required to pay at least 33% of the upgrade costs.
- Grant funding may only be supplied to third party private landlords owning 4 or fewer rental properties.
- SCC is to comply with the accounting audit, monitoring and reporting requirements specified in the grant agreement (see details).
- SCC must comply with the detailed performance management and key performance indicator requirements specified in the Grant Agreement (see details)
- SCC must comply with the risk management obligations contained in the Grant Agreement and maintain an appropriate risk register (see details).
- SCC must evidence due diligence to manage fraud risk and data on key performance indicator progress
- SCC must be aware of RHI rules.
- SCC must enter into a Data Sharing Agreement with BEIS.
- SCC may use grant with third party finance or SCC revenue budget to deliver additionality.
- SCC will ensure the use of the Grant does not breach any subsidy controls.
- SCC must obtain and retain all declarations and information (and provide copies to BEIS) as required to enable SCC and BEIS to comply with applicable subsidy controls.

4.2.4 **Consortiums and Third Parties**

SCC is permitted to set up a consortium of other local authorities to deliver the Project. SCC would be the leader and accountable body for any such consortium set up under the terms of the Grant Agreement (see Consortia and Net Zero Hub details). SCC to ensure other public bodies performance arrangements are such that the grant can be redistributed from poor performers.

SCC is permitted to pay the Grant to third parties (such as contractors) in relation to the Project, provided that the third-party requirements detailed in the Grant Agreement are complied with. SCC will be the accountable body for these third-party payments. Notably (but not exclusively), SCC must ensure that funding provided to third parties:

- Addresses value for money and valued added requirements
- Complies with key performance indicators
- Works are deliverable within the Grant Agreement Period;
- The Grant Agreement provisions are included in any arrangement with third parties, and ensure a provision stipulating return of the Grant if the terms are not complied with;

SCC retains responsibility for the performance of any third party it engages in relation to the Grant and the Project, including contractors and consortium.

4.2.5 **End of Project Requirements**

- Final reports: closure letter, signed declaration, final report by 28/4/23.
- 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.
- SCC to keep records for 10 years
- MOU not intended to be legally binding, no legal obligations or rights shall arise between the Parties. Both parties intend to honour all MOU commitments.
- MOU is not intended to establish any partnership, joint venture or relationship of employment between Parties, constitute either party as the agent of the other party, nor authorise either of the Parties to make or enter any commitments for or on behalf of the other party.

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 para.62 and para.66 of the grant agreement.

4.3 Legal Implications

- 4.3.1 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.
- 4.3.2 The Council has no specific power or duty to make energy efficiency and low carbon heating upgrades to low-income households.
- 4.3.3 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.
- 4.3.4 The contracting arrangements are permitted by the Local Government (Contracts) Act 1997 and should ensure the Council can meet the objectives of the scheme.
- 4.3.5 Although the MoU is stated to be not legally binding, it nevertheless effectively gives the Council the risk of delivery of the outputs within the grant amount, and the other provisions – regarding termination, clawback etc - would effectively be binding, given the practical and reputational consequences of non-compliance.
- 4.3.6 The key requirements in the MOU include:
- The Council must use the grant in accordance with the provisions of the MoU to only incur eligible expenditure.
 - The Council must only use eligible installers.
 - Where the Council provides any funding to third parties for activities undertaken during the funding period, it must ensure that the provisions within the MoU are included in any arrangement with these third parties.
 - The Council must ensure that the grant and use of it does not breach any applicable subsidy control regime.
 - The Council must comply with all relevant requirements of UK law relating to public procurement in force and applicable from time to time.
 - BEIS may request the Council to repay all, or any proportion of, the grant, together with interest.
 - BEIS’s liability to the Council is limited to payment of the grant

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

- 4.4.1 The scheme will contribute toward tackling fuel poverty, helping some of the most vulnerable households with the worst performing energy rated properties across the city

5. ALTERNATIVE OPTIONS CONSIDERED

- 5.1 The alternative is not to accept the funding. The city would not benefit from the funding and homes will miss out on important energy improvement measures, contributing to a reduction in carbon emissions and more affordable warmth

6. REASONS FOR RECOMMENDATIONS

- 6.1 The recommendations as set out in this report will enable the Council to deliver improved energy efficiency, more affordable warmth, and carbon reduction measures to off-gas homes in the private housing sector across the next two years. The HUG 2 project provides an excellent opportunity to retrofit some of the least efficient stock across the city and will contribute towards measurable changes and improvements towards the city's net zero carbon 2030 ambitions.

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