

Appendix B1 - Assurance Summary

VERSION 1 24.11.2021



1 – SCHEME DETAILS

Project Name	Housing Retrofit - Thermal Efficiency and Heat Pump upgrades	Type of funding	Grant
Grant Recipient	Doncaster Borough Council	Total Scheme Cost	£5.75m
MCA Executive Board	Housing and Infrastructure	MCA Funding	£2.7m
Programme name	Gainshare	% MCA Allocation	47%
Current Gateway Stage	OBC	MCA Development costs	N/A
		% of total MCA allocation	N/A

2 – PROJECT DESCRIPTION

Following the Chancellor's announcement of a £2 billion Green Homes Grant (GHG) in July 2020, the government set out how the GHG would be delivered. With a focus on improving the energy efficiency standards in the homes of low-income households, to help both reduce fuel poverty and reduce carbon emissions, the government made the grant available to the public and for delivery via Local Authorities.

Doncaster Council has successfully bid for funding to initiate a housing retrofit scheme focusing on the most impactful energy efficiency works in low-income communities with the oldest inefficient housing stock.

With restrictive qualifying criteria, which do not allow an area-based approach, the applicant is seeking funds that enable the achievement greater community impact and value for money.

Delivery alongside our existing 5-year thermal improvement programme for social housing will enable that impact as well as allow the social housing works to be accelerated; delivering comfort, fuel and carbon savings much earlier in the programme.

To ensure the project is delivered to greatest effect and impact, the applicant will focus on low-income communities and specifically areas that have older housing stock with solid wall construction. By the time the MCA funding could be available, the applicant would like to be targeting such areas as Stainforth, Intake, Conisbrough/Denaby and Mexborough.

3. STRATEGIC CASE	
<i>Options assessment</i>	<p>The applicant outlines three options for the appraisal:</p> <ul style="list-style-type: none"> • A Do Minimum, where the private property scheme operates sporadically and less homes reduce their energy costs. The applicant states in clarification responses that there would be a risk of losing the supply chain (due to increases in labour and materials cost), as the continuity of work would be lost in this option. • A Viable alternative option 1, in which the applicant receives 20% lower grant funding for the scheme, resulting in 320 homes being retrofitted. • The Preferred option, which secures full funding and supports a total of 400 homes. <p>The rationale supporting the preferred option is that more homes can be provided with improved insulation, and that this will support net zero carbon objectives for Sheffield City Region. This is a clear rationale for its selection, and for the greater amount of funding requested in this option, as it fulfils a greater need for insulation within the local area.</p>
<i>Statutory requirements and adverse consequences</i>	<p>The applicant notes that <i>“planning has been undertaken to agree specifications of work and designs to the exterior of homes”</i>, further clarifying that the works are <i>“proposed to work to new PAS2035 standards for which the contractors J Tomlinson and Everwarm have achieved their accreditation.”</i> Furthermore, in clarification responses the applicant has confirmed that all planning approvals are now in place. Given this, there are no foreseen statutory requirements that may represent a risk to the project programme.</p> <p>In clarification responses by the applicant, the benefits to air quality have been modelled. The applicant states that <i>“Based on the boiler manufacturer assessment of NOX emissions. The boilers in scope for replacement have a 30mg/kWh emissions factor. An average household using 12,000 kWh’s gas per year would save 276,000 mg.”</i></p> <p>A potential disbenefit to residents is the additional operating cost that could be associated with those homes being fitted with Air Source Heat Pumps (ASHPs). There is a risk that operating costs for the units will turn out higher than compared to current costs. The applicant notes a “cost pressure of £266 with the change from Gas to ASHP” within the clarification responses but also notes mitigation relating to improving air tightness and use of battery storage for running the ASHP units although it is unclear if the latter is included in the project costs. It is possible that residents could notice an increase in their energy costs, which is very relevant at the moment with the current energy price issues. The energy-efficiency of units are also likely to vary from the quoted values, which could also affect likely cost savings.</p>
<i>FBC stage only – Confirmation of alignment with agreed MCA</i>	<p>The project demonstrates a clear alignment with the “Stronger” objective through the employment support on the program. The applicant has ensured that contractors will use local supply chains in the construction phase, which is anticipated to support 10-15 jobs. The applicant notes in clarification responses that employees will gain PAS2035 qualification in several different levels,</p>

<i>outcomes (Stronger, Greener, Fairer).</i>	<p>for example, at a Co-ordinator, Assessor and Designer level. Therefore, this further contributes to the targets surrounding skilled employment in this plan.</p> <p>The project will also contribute to the “Fairer” objective through supporting health improvements. The applicant states that “<i>The proposed retrofit works will reduce the risk of cold related illness and improve comfort as well as reduce fuel costs by up to £300 per home.</i>” The applicant also notes that there are 23,941 (17.8% of all households) estimated to be living in fuel poverty, implying that through the scheme, this can be reduced in Doncaster. Furthermore, in terms of energy costs, the applicant has justified an average saving of £510 per property from the scheme through clarification responses.</p> <p>The project will also contribute to the “Greener” objective through contributing to local and regional net zero ambitions. Through the scheme, the carbon emissions in each home are expected to reduce by 1 tonne per annum, equivalent to 10,000 tonnes over the life of the measures. This is an important contribution given that housing stock presents the joint greatest possible CO2 savings for Doncaster, alongside transport. This scheme contributes directly to reducing carbon emissions in Doncaster.</p>
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4. VALUE FOR MONEY

Monetised Benefits:

<i>VFM Indicator</i>	<i>Value</i>	<i>R/A/G</i>
<i>Net Present Social Value (£)</i>	£9.27m (indicative)	A
<i>Benefit Cost Ratio / GVA per £1 of SYMCA Investment</i>	3.43 (indicative)	A

Value for Money Statement

The applicant has not calculated a BCR for this scheme, as would usually be expected in a funding application, therefore the value for money of the scheme cannot be judged by this metric. In clarification responses from the applicant, they state that benefits are calculated through UNO software, with current energy prices applied, to calculate an average saving per household of 400 tonnes of carbon saved per annum, equivalent to an average cost reduction of £503 per year.

The scheme does have other benefits that could be monetised as part of the scheme. For example, social and health benefits for the tenants of the housing targeted for the intervention could be monetised for the benefits of the scheme. However, these benefits have not been quantified by the applicant, which would strengthen the application

If the fuel savings were to be calculated and used as a monetised benefit, this would be an estimated benefit of £5.03m (400 homes x £503 annual saving x 25 years) over the course of the 25 year appraisal period. If this metric alone was used to estimate value for money, this would give an estimated BCR of 1.86, indicating good value for money. If the carbon value was also be taken into account (which the applicant estimates at £245 per tonne x 693 tonnes per annum x 25 years) this would be an additional benefit of £4.24m over the appraisal period, increasing total benefits to £9.27m, resulting in a greater BCR of 3.43, which would be very good value for money. These are simple calculations (not taking into account additional value) undertaken by the assessor, and it would be beneficial for the applicant to undertake a more detailed assessment of BCR at the FBC stage.

5. RISK

Key risks identified include those relating to Covid. This would impact on the ability to access homes and supplying staff to install the insulation, which in turn would impact on the programme timescales. Other risks highlighted with the potential to impact on timescales and costs include poor weather, as the works are weather dependent, and the availability of materials, necessitating monitoring of lead times.

Poor workmanship is considered a risk, as the efficiency of Air Source Heat Pumps (ASHPs) and the envisioned health benefits of the scheme may not come to fruition. To mitigate against this, project managers of the scheme will ensure that all works are delivered to PAS235 specification. There is also the risk is that ASHPs might not achieve the intended co-efficient of performance (COP). This is mitigated with only choosing the most appropriate households for ASHP and also a detailed handover will be arranged along with ongoing tenant liaison to avoid greater risk of misuse.

The ambitious programme of activity represents a moderate risk. The MCA should stipulate that any allocated funding drawn down and not committed by the deadline is returned through the inclusion of funding clawback mechanism as part of the grant agreement.

Another further risk, given the risks detailed in the question above, is the likelihood of cost overruns due to inflation, capacity, material, or weather constraints. Therefore, a condition relating to cost overruns being borne by the applicant should be included.

The applicant does not state any significant funding risks for the project. The applicant details in section 2.1 that the Doncaster Council funding for the “Housing Retrofit – Thermal Efficiency and Heat Pump upgrades” is secured. All other funding is to be secured from the MCA as part of this application.

The procurement strategy has been completed for this scheme, and a contractor has been identified for the installation of the insulation in the local area. The Council’s technical monitoring team will ensure that works are monitored for quality and works will be paid for on satisfactory completion. There is some risk that contractors utilising subcontractors will have the potential to impact on quality, but that this is likely to be protected by the contractual obligations of the scheme.

6. DELIVERY

The timetable delivery is expected to take 12 months from the commencement of the project (April 2022) to the expected finish of the works (March 2023). Given the scale of the project, which aims to install insulation in 400 homes, the timetable implies a rate of installation of more than one home per day. Therefore, this makes the timetable somewhat ambitious and reliant on a lack of delays and flexibility in staff to be achievable.

The milestones identified within the OBC will need updating at FBC appraisal as Cabinet approval is currently assumed to be sought in March 2022 which has now passed.

The procurement strategy has been completed for this scheme, and a contractor has been identified for the installation of the insulation in the local area. Given this, it would be helpful to clarify whether this is a continuation of a previous scheme agreement or a new agreement. This was raised as part of the clarification process but it is still unclear. It is understood that the funding will be used for additional houses, separate to the improvements undertaken with the £3m of match funding. If so, it is anticipated that the contractors that worked on the original scheme (Everwarm Ltd covering the private properties and J Tomlinson Ltd covering the social housing), would continue to cover these new improvements.

The procurement strategy, outlined partly in section 4.4, is clear in terms of the obligations of the contractors. However, no clear milestones are identified for the progression of the scheme, for example, targets of the number of houses retrofitted per day. Clarification on these would help to ensure that the procurement of the chosen contractors was achievable and appropriate to meet the targets of the scheme.

The applicant has stated a cost certainty level of 95% for this submission, which is high for an OBC at this stage of development. The reviewer has noted the following issues for cost certainty in this OBC:

- The delivery plan, within the 2022/23 financial year, is ambitious given the scale and possible complexity of the works. This may lead to some grant funding coming forward in the financial year 2023/24 should there be overruns. The applicant has sought to clarify this, stating that *“Notwithstanding the supply chain challenges for ASHPs, all of the insulation works should be deliverable within that timeframe.”*
- There may be cost creep derived from the price of supplies, which may occur between the approval of grant funding and commencement of the project. This is a key risk given the current level of inflation in the UK economy and the resulting increase in prices for materials and equipment. This has the potential to reduce the numbers of homes where the measures outlined can be implemented.

An organogram of the project governance is presented in Appendix D of the submission. Karen Lythe will lead the team as the Assistant Director for Strategic Housing and Sustainability. The team is supported by experience across the council and St. Leger Homes and specialises in housing and sustainability practices. From an operational side, the principal contractors for the project are J Tomlinson Ltd. This will be led Operations Manager Ian West, who has significant experience in social housing improvement schemes, and will monitor KPI performance. The wider team has skills and experience in stakeholder engagement, communication, customer care, workstream planning and commercial schemes that mean it is well suited to this project.

Signatures are included in this version of the OBC. It is signed by the Director of Economy and Environment as the person responsible for the application and is also signed by the Director of Corporate Resources.

Monitoring and evaluation processes are set out in detail. The applicant states that *“we will be working with the University of Sheffield to survey the before and after impacts of the home energy efficiency improvements to assess the carbon and fuel savings achieved”*. The scheme will be subject to PAS235 standards, which will need to be upheld for evaluation stages. In terms of reporting, St. Leger Homes will report monthly findings to Doncaster Council for the project, similarly to previous LAD schemes. J Tomlinson will also provide monthly progress reports to Doncaster Council, who in turn will report progress to BEIS at the end of each month. Ongoing risks throughout the scheme will be monitored frequently throughout the project, according to the client.

7. LEGAL

The applicant notes that subsidy control is not applicable to this project. Justification is provided on the basis that *“An appropriately advertised open tender process (procurement) is used to select the supplier of goods, works or services”*. However, the applicant will be required to submit with their application a formal legal opinion confirming subsidy control compliance at FBC stage.

8. RECOMMENDATION AND CONDITIONS

Recommendation	Progress to FBC
Payment Basis	N/A
Conditions of Award (including clawback clauses)	
<p>Recommendations at FBC:</p> <ul style="list-style-type: none"> • Submission of a formal subsidy control legal opinion. • Key milestones to be updated to reflect the projects current progress through the MCA's Assurance process. • Potential for cost overruns due to inflation, capacity, material, or weather constraints to be taken into consideration. • Economic Case to be updated to include a HMT Green Book compliant assessment of the projects potential economic benefits as discussed above in 'value for money'. 	