

Housing Investment Group

Date of meeting: **20 November 2013**

Title of paper: **Update on RE:NEW Programme**

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Classification: **Public**

1 Executive Summary

- 1.1 The Domestic Sector Retrofit programme RE:NEW has retrofitted over 99,000 homes to date, since it was created in 2009. However retrofit activity in London (at 6% of the UK total) is still lower than London's share of housing (12%) and a major scaling up is required to meet our targets as part of the Mayor's carbon plan.
- 1.2 In order to meet targets to 2015 and beyond, and to take on the challenge of delivery under the government's new Green Deal and Energy Company Obligation (ECO) schemes, the RE:NEW programme is aiming to significantly expand its activities. Over the next three years, the RE:NEW programme will aim to support the letting of contracts that will save approximately 186,000 tonnes CO₂ per annum through retrofitting approximately 232,000 homes.
- 1.3 HIG gave approval in February 2013 to establish a RE:NEW Support Team to work with boroughs, social housing organisations, private landlords and other stakeholders to support and increase uptake of ECO and Green Deal in London. Due to funding requirements of the European Investment Bank (EIB) procurement of this has not yet commenced. This paper sets out a number of recommendations to put this in place over the coming 3 years.
- 1.4 This paper also seeks approval to extend the current interim RE:NEW Support Team until end March 2014 and also to submit a funding application to the EU ELENA fund for up to £3.5 million to establish the RE:NEW Support Team for three years from April 2014.
- 1.5 Assuming the application is successful, approval is sought to allocate GLA funds (10% of the total application value) and to enter into a grant agreement with European Investment Bank, the ELENA administrator. Approval is also sought to carry out procurement of the RE:NEW Support Team and to enter into and execution of contracts with the resulting preferred bidder (subject to successful application).

2 Recommendations

- 2.1 That the contents of this paper be noted and the following recommendations be approved in principle:
- 2.1.1 The extension of the interim RE:NEW Support Team contract by up to £200,000 until the end of March 2014.
 - 2.1.2 The submission of a GLA-led bid to the European Commission's ELENA fund up to a value of £3.5million.
 - 2.1.3 The allocation of GLA contribution of up to £376,000 over 2013-14 to 2016-17 (to be met through existing Housing and Land revenue budgets).
 - 2.1.4 Entering into a Grant Agreement with the European Investment Bank (administrator of the fund) for the ELENA funding (subject to a successful funding application), or other funding bodies as required.
 - 2.1.5 The commencement of an OJEU compliant procurement process (up to £3.85million) to procure the full RE:NEW Support Team for three years.
 - 2.1.6 The procurement, award of, entry into and execution of contracts to enable the delivery of the RE:NEW Support Team (subject to a successful funding application).

3 Introduction and Background

3.1 Extension of the RE:NEW Interim Support Team

- 3.2 The RE:NEW Support Team (previously referred to as Programme Delivery Unit) was established in June 2013 to work with boroughs, housing associations, private landlords and other stakeholders to support and increase uptake of ECO and Green Deal in London. This interim RE:NEW Support Team has been funded by GLA to the value of £150,000.
- 3.3 Following an OJEU-compliant procurement process, Capita Symonds were selected to run the RE:NEW Interim Support Team. The progress made by the team to date has been excellent. The target of 1,500 tonnes of CO₂ saved has been substantially exceeded; two contracts have been signed, with Brent Housing Partnership and LB Lewisham representing a total capital value of £24 million, and a saving of 4,333 tonnes CO₂ per annum. There are a further 6 projects in procurement equating to a further £17.5 million capital investment and a saving of almost 6,000 tonnes CO₂. This includes projects from Tower Hamlets Homes, LB Wandsworth and LB Havering. A further 17 boroughs and housing associations are engaged with the Support Team at the earlier stages of project development.
- 3.4 It was originally envisaged that the ELENA funding application process would be completed by October 2013 to allow the full support team to be procured and in place by January 2014. However, it has since been made clear that the EIB process is longer than originally anticipated, and procurement of the

ELENA-funded support team cannot commence until the EU provide formal approval.

3.5 This paper seeks approval to proceed with the extension of the Capita Symonds contract to deliver the interim RE:NEW Support Team services until 31 March 2014. The process of contract extension has been agreed in principle with TfL procurement.

3.6 Funding for the extension of up to £200,000 is held within the RE:NEW budget for 2013/14.

3.7 ELENA Application

3.8 The EU ELENA (European Local ENergy Assistance) Fund provides revenue funding to support projects to increase the uptake of energy efficiency and renewable energy projects in line with EU priorities. Funding is provided on a grant basis, with 10 per cent of the total value to be provided by the applicant.

3.9 The GLA successfully bid for £6 million ELENA funding in 2010/11 for the RE:FIT public building retrofit and Decentralised Energy programmes.

3.10 In the process of preparing the RE:NEW Support Team bid there have been numerous discussion with the EIB technical team to tailor and clarify the bid before it is formally submitted. Once the EIB technical team are content, the bid is formally submitted. The bid is then passed to the EU governance panel for formal sign off. We expect the RE:NEW Support Team bid to be finalised by mid November.

3.11 It is anticipated that the total value of the work will be up to £3.85m. The bid to the European Commission will be up to a value of up to £3.5million. The remainder will require a GLA contribution of up to £376,000 over 2013-14 to 2016-17 (to be met through existing Housing and Land budgets).

3.12 The bid includes funding for GLA to create a new grade 10 project manager post to support the delivery of the project over three years.

3.13 Once the bid is deemed successful, the EIB will provide a grant agreement for the funding which the GLA will enter into, subject to approval from TfL Legal, our advisors.

3.14 Procurement of the RE:NEW Support Team

3.15 Once we have received notification that our bid has been successful, we will commence an OJEU compliant procurement process (up to £3.85million) to procure the full RE:NEW Support Team. We anticipate using a TfL project management framework. The procurement plan, framework selection and evaluation strategy will be approved by the TfL Procurement Board.

3.16 The award of, entry into and execution of contracts to enable the delivery of the RE:NEW Support Team will only be completed once the EIB/GLA grant agreement is in place.

4 Issues for consideration

4.1 The extension of the interim RE:NEW Support Team is vital to maintain the pipeline of projects and engagement of housing associations and London

boroughs. If the extension is not approved, there would be potential reputational damage and the full RE:NEW Support Team would be negatively impacted.

5 Risks arising / mitigation

5.1 ELENA is unsuccessful

5.2 If the ELENA application is unsuccessful, there is option to consider the use of ERDF match funding to support the establishment of the RE:NEW Support Team, however this has implications on the GLA budget as ERDF funding required 50:50 match. This would result in a pressure on the RE:NEW budgets.

5.3 We have been unable to identify any suitable alternative sources as funding outside of ELENA and ERDF. Most other energy efficiency EU funding sources are focused on project spanning multiple EU cities. While the Department of Energy & Climate Change has funding competitions open, they only provide funding for single capital projects, usually over just one financial year.

5.4 ECO (or alternative) funding is no longer available

5.5 Government is reviewing “green taxation” on energy bills, e.g Government energy policies with delivery costs that are passed on, or shared, with energy suppliers and therefore paid via energy bills. Statements from DECC and Government politicians suggest that ECO and the Warm Homes Discount are most likely to be impacted by the review, and there has been some discussion regarding funding energy efficiency through general taxation as opposed to utility obligation. Changing the ECO model would require secondary legislation.

5.6 The current ECO must be allocated to projects by March 2015, hence the energy companies are unlikely to hold back their project investments as there are harsh penalties to failing to meet their obligation. The Environment Team is currently developing a proposed lobbying approach to help to address this risk, which may include lobbying for a regional target. If successful this could improve the follow of funding for projects.

5.7 If the ECO funding is terminated, and not replaced by an appropriate alternative, there would still be an option to terminate the RE:NEW Support Team if it was felt that the contractual terms set down in the GLA/EIB grant agreement could not be met. Appropriate break clauses will be built into the RE:NEW Support Team contract.

5.8 ELENA contractual terms

5.9 While we have not received the detailed document as yet, we understand that the key success factor is that projects generated by the support team over the three-year period have a total capital value exceeding 20 times the value of the ELENA application. If this is not achieved, there is a risk of clawback.

5.10 This leverage factor equates to £77 million. Our modelling anticipates a pipeline in the region of £400 million. The current interim RE:NEW Support Team has generated projects to the value of £71 million over the last 6 months.

6 Financial comments of the Executive Director Resources

- 6.1 This programme will be 90% funded by the EIB should the bid submission be successful.
- 6.2 The GLA would be contracted to fund the remaining 10% of the programme, which amounts to £120,000 for three years. This can be funded from the domestic retrofit revenue base budget currently planned for 2013/14 to 2016/17.
- 6.3 The GLA will be at risk of clawback of the funding if certain conditions within the agreement are not met.

7 Legal Comments

- 7.1 The proposals appear to fall broadly within the GLA's powers to do such things as are considered facilitative of and conducive to the promotion of the environment in Greater London. However, officers should ensure that:
 - 7.1.1 in formulating the proposals in respect of which a recommendation is sought officers comply with the GLA's related statutory duties to:
 - 7.1.2 pay due regard to the principle that there should be equality of opportunity for all people;
 - 7.1.3 consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and consult with appropriate bodies.
 - 7.1.4 if the board approve the proposals, appropriate authority (by way of MD) is obtained sought before proceeding further;
 - 7.1.5 in the event that the GLA is successful in its bid, they review and satisfy themselves (seeking legal and financial advice as required) that they are content with the terms of supporting EU funding and place no reliance on such funding until a legally binding funding agreement in this regard is put in place by the funder and the GLA;
 - 7.1.6 any project funding for which the GLA is to become accountable body in its coordinator role ensure is disbursed in a fair and transparent manner in accordance with the GLA's Contracts and Funding Code;
 - 7.1.7 any works services or supplies required for the delivery of the project are procured by Procurement who will determine the detail of the procurement strategy to be adopted in accordance with the GLA's Contracts and Funding Code; and
 - 7.1.8 appropriate contract documentation is put in place and executed by the GLA and contractors before the commencement of any such works, supplies or services.

8 Next steps

HIG decision to proceed	November 2013
Formal submission of bid	November 2013
EU funding confirmed in principle	December 2013
EU funding agreement signed	February 2014
Procure full Support Team	January – March 2014
Commence work	April 2014
Complete programme	March 2017

9. Appendices

None.