

York and North Yorkshire Joint Devolution Committee Meeting

23 October 2023

NET ZERO FUNDING

Report of the Interim Director of Transition

1. Purpose of the Report

1.1 This report seeks to allocate £7m funding to a programme of Capital and Revenue projects that will deliver significant carbon reductions and contribute to York and North Yorkshire's ambition to be net zero by 2034. The report seeks to recommend an over commitment of the funding for additional schemes to be funded from the mayoral Investment Fund.

2.0 BACKGROUND

- 2.1 Within the proposed York and North Yorkshire Devolution Deal, published August 2022, it was agreed "The Government will provide £7 million investment that will enable the area of York and North Yorkshire to drive green economic growth towards their ambitions to be a carbon negative region. This investment is subject to agreement of a business case from the area".
- 2.2 To ensure readiness to deliver this funding prior to the York and North Yorkshire Mayoral Combined Authority (YNY MCA) being established, the Devolution Joint Committee agreed an interim process at the 30th November 2022 Joint Committee meeting. This agreement was for the York and North Yorkshire Local Enterprise Partnership to administer the fund, on behalf of the YNY MCA.
- 2.3 At the 30th November 2022 Joint Committee meeting, the prospectus for the Net Zero Fund was signed-off. This included agreement of the purpose and scope of the funding, as summarised below:
- **Project Development Support** (£1m revenue funding): The Fund will support the development of projects to enable us to build an investible pipeline of projects that will make a significant contribution to delivering net zero, energy security and economic growth. The fund will support project development activities, including project scoping, community engagement, feasibility studies and business case development.
 - **Capital Grants for Project Delivery** (£6m capital funding): The fund will enable the delivery of net zero projects that otherwise would not happen. The fund will provide capital grants to deliver net zero projects.
- 2.4 The Net Zero Fund was launched on 3rd January 2023, with a call for full applications for the revenue strand and Expressions of Interests (EoI) for the capital strand. The deadline for applications and EoIs was the 6th February 2023. 52 applications were received for the revenue strand, and 61 applications were submitted for the capital strand. An assessment panel was created made up of representatives from the Y&NY LEP, NYCC, CYC and the North East and Yorkshire Net Zero Hub. Each panellist individually assessed each application based on the Gateway Criteria and Assessment criteria, as set out in the Prospectus. A consensus session was then held on the 16th February 2023 to agree overall scores and recommend projects to prioritise.
- 2.5 At the 13th March 2023 Joint Committee meeting, the initial prioritised list of revenue projects were approved to form the basis of further discussions with applicants, and the initial prioritised list of capital projects were approved to progress to full business case stage.

3.0 APPRAISAL PROCESS AND OUTCOME

- 3.1 Following the Joint Committee's approval of the initial prioritised list of projects in March 2023, applicants to the **Project Development Support (revenue) strand** were requested to submit additional information around their project. Applicants to the **Capital Grants for Project Delivery strand** were invited to submit full business cases.
- 3.2 To ensure that the appraisal process was independent and rigorous, an external consultancy were commissioned to undertake the appraisal of the revenue and capital projects.
- 3.3 For the **Project Development Support Strand (revenue)**, additional information was obtained from applicants around Value for Money (VfM), need for public sector intervention, procurement processes and risks, and monitoring and evaluation. Initial applications and additional information obtained were appraised using Green Book principles proportionate to the amount of funding being requested. Each appraisal reports sets out an assessment of: evidence of need and strategic fit; outputs; costs, funding requested and match funding provide; value for money (VfM); risks and timescales to ensure completion by the end of March 2025; and contribution to the development of a pipeline of future capital projects. The appraisal reports provide a conclusion, recommendation whether to approve or reject funding request, and a RAG status.
- 3.4 For the **Project Delivery Strand (capital)**, the independent appraisers used the Green Book Five Cases Model to appraise each capital project. Each appraisal report sets out a thorough assessment, including scoring, justification, and RAG rating for each of the five cases. The reports also provide an overall RAG status, alongside key recommendations around approval or rejection, level of grant funding and any conditions.
- 3.5 Summary of the outcome of the appraisal
- 3.6 **Revenue Programme** - From the appraisal of 16 revenue projects, 11 projects have been recommended by the appraiser to be approved for funding either at the level applied for or at a reduced rate. Projects that received a red RAG rating were recommended to be rejected, as a result of critical issues raised as part of the appraisal, such as financial fragility of the lead organisation, lack of clarity around what the project would deliver, and specific project related risks.
- 3.7 **Capital Programme:** A total of 19 capital projects were appraised, with the appraisers recommending that 13 projects are approved and receive funding from the Net Zero Fund. Again, the appraisers recommended that the grant rate for many projects could be reduced with the applicants (and/or their partners) to provide additional funding. Reduced grants levels were recommended by the independent appraiser to maximise the value and impact of the Net Zero Fund, equating to over £6m of match funding required from partners. For projects that were recommended to be rejected this was due to receiving a red RAG rating, resulting from critical issues, such as financial fragility of the lead organisation, significant delivery risks and uncertainty around long-term financial sustainability of the project.

4.0 PROPOSED REVENUE AND CAPITAL PROGRAMMES TO FUND

- 4.1 Following receiving the appraiser's recommendations, discussions have been held with all the applicants and funding bodies to ascertain whether the increased match funding grant requirements and proposed funding conditions would be possible. Although some applicants were able to provide an increased level of match funding, or to reduce the scale of their project, the majority of applicants were not able to identify additional match funding. This involved all projects that scored either green or amber ratings through the appraisal with the projects in red rejected due to delivery risks, and uncertainty regarding financial and commercial viability, further discussions will be undertaken with all rejected projects to develop their propositions further for the potential pipeline of future schemes.

4.2 Proposed Revenue Programme

4.3 The table below outlines proposed grant funding to projects following the outcomes of these discussions with applicants:

NET ZERO REVENUE PROGRAMME			
Grouped in RAG rating. Green Approve with minor clarification required, Amber approve with conditions and further clarification.			
Project Name & Organisation Lead	RAG Status	Proposed Grant Funding	Cumulative Project Costs for Capital Programme
Shore Power at Scarborough & Whitby Harbours <i>North Yorkshire Council</i> (North Yorkshire)		£47,084.00	£47,084.00
Establishing a Baseline for Evidence and an Action Plan for Regenerative Farming in York & North Yorkshire <i>Yorkshire Dales National Park Authority</i>		£75,000.00	£122,084.00
Lastingham Case Study <i>North York Moors National Park Authority</i> (North Yorkshire)		£49,680.00	£171,764.00
The Great Yorkshire Kelp Forest <i>East Riding of Yorkshire Council</i> (<i>Yorkshire Marine Nature Partnership</i>) (North Yorkshire)		£57,600.00	£229,364.00
Whitby and Scarborough Park and Ride EV Hyperhub Business Case Development <i>North Yorkshire Council</i> (North Yorkshire)		£45,000.00	£274,364.00
Electric Vehicle Public Charging Infrastructure Rollout Strategy Next Steps <i>North Yorkshire Council</i> (North Yorkshire)		£40,150.00	£314,514.00
District Heat Network - Potto <i>North Yorkshire Council</i> (North Yorkshire)		£60,000.00	£374,514.00
Elvington Lane Solar PV <i>City of York Council</i> (York)		£50,000.00	£424,514.00
Harewood Whin Green Energy Park <i>City of York Council</i> (York)		£243,500.00	£ 668,014.00
North Wigginton Onshore Wind - Project Development <i>City of York Council</i> (York)		£50,000.00	£ 718,014.00
Green Energy Park at Seamer Carr & Decarbonising Allerton Waste Recovery Park <i>North Yorkshire Council</i> (North Yorkshire)		£187,500.00	£ 905,514.00
TOTAL:		£905,514.00	

4.4 Approval of this revenue programme would provide grant funding for 11 revenue projects, with a total grant award of **£905,514**. This would achieve the following key outputs: 8 Feasibility Studies, 6 Full Business Cases, 2 Outline Business Cases, 1 Research Report & Action Plan. This will enable York and North Yorkshire to develop a strong **pipeline of strategic, investment-ready net zero project** that will drive green economic growth across the economy and the delivery of the region's carbon targets.

4.5 Proposed Capital Programme

4.6 Following discussions with applicants, 1 project (North Yorkshire Council's Electric Vehicle Charging Point Rollout Project) has been withdrawn as alternative funding has been

identified. Discussions with applicants around potential for increasing match funding and downscaling projects has led to a proposed total allocation of **£6,281,224 grant funding** to capital projects.

NET ZERO CAPITAL PROGRAMME			
Ranked in RAG rating order and then Strategic fit rating			
Project Name & Organisation Lead	RAG Rating	Proposed Grant Funding	Cumulative Project Costs for Capital Programme
Moorland Restoration Project <i>Denton Park Estate (North Yorkshire)</i>		£109,657	£109,657
REstore <i>North York Moors NPA (North Yorkshire)</i>		£473,001	£582,658
Net Zero for Yorkshire North & East Methodist District <i>Yorkshire North & East Methodist District (North Yorkshire)</i>		£531,555	£1,114,213
The Electric Cow Project <i>Askham Bryan College (York)</i>		£360,000	£1,474,213
Solar PV & Battery Storage installation on Council Commercial Assets <i>North Yorkshire Council (North Yorkshire)</i>		£252,394	£1,726,607
Kildwick to Silsden Active Travel Link <i>North Yorkshire Council (North Yorkshire)</i>		£972,048	£2,701,063
Community Transport Decarbonisation <i>North Yorkshire Council (North Yorkshire)</i>		£431,850	£3,132,913
Decarbonising Community Buildings <i>North Yorkshire Council (North Yorkshire)</i>		£550,000	£3,682,913
Renewable Heating Upgrade - Alex Lyon House <i>City of York Council (York)</i>		£1,050,611	£4,733,524
Honeysuckle House heat pump communal heating upgrade <i>City of York Council (York)</i>		£843,788	£5,577,312
Street Lighting LED Conversion <i>City of York Council (York)</i>		£352,282	£5,929,594
Commercial Buildings LED Lighting Renewal Project <i>City of York Council (York)</i>		£354,028	£6,283,622
TOTAL:		£6,281,224	

4.7 The proposed capital programme will deliver 12 projects, leading to substantial carbon emissions savings, as profiled below up to 2039:

	2024/25	2025-9	2030-2034	2035-9
Tonnes of carbon emissions saved	169	70,741	62,780	62,780

4.8 Proposed Management Costs

To resource the management and delivery of the net Zero Fund and undertake the following activities it is proposed that a budget of **£350k** is provided from the Net Zero Fund.

This would include the following:

- Communications – This will primarily be done through existing networks and through Local Authority contacts, however there will be some call for press releases and Marketing
- Information sessions – In order to provide potential applicants with detailed information about the Fund.

- Legal and Assurance – There will be some significant resource implication in receiving, assessing, appraising and responding to the applications submitted.
- Developing the business cases and projects – primarily this will be the task of the potential applicants but to ensure high quality applications some assistance and support will be required.
- Contracting and Programme Management – Managing all the grants and ensuring delivery
- Pipeline development – continuing to develop the next round of projects and future a future pipeline of projects

4.9 Programme Budget: Over-Commitment of Funding

The proposed programmes of revenue and capital projects lead to a total of **£7,186,738** of grant funding to projects. Considering the programme management budget of £350,000 (at agreed 5% level), this totals **£7,536,738**. An overcommitment of **£536,738** against the original budget allocation. This level of over-commitment is recommended due to the potential for time slippage, under-delivery and some projects not coming to fruition. If funding is not over-committed and there is under-performance, then the equivalent amount of funding would be required to be returned to Government. Therefore, this approach reduces programme level delivery risks and ensure York and North Yorkshire benefit from the full £7m committed by Government. By over-committing the funding, the MCA would need to guarantee the additional funding through the Mayoral Investment Fund.

5.0 PROGRAMME LEVEL BUSINESS CASE

- 5.1 As set out in the background information, the £7million investment is subject to the agreement of a business case. The business case has been drafted and has been approved by the MCA Director of Transition, in consultation with the Local Authority Chief Executives, and submitted to the Department for Levelling Up, Housing and Communities (DLUHC) on the 6th October 2023. Within the business case, the proposed revenue and capital programmes has been caveated with being subject to the decision of the York and North Yorkshire Joint Devolution Committee. This approach was required in order to ensure that DLUHC can agree the business case by the end of October, allowing formal offer letters to be issued in November and subsequent funding agreements to be issued in December. If the business case submission was delayed, it would put the programme at risk due to the tight timescales for delivery by the end of March 2025.
- 5.2 DLUHC are currently seeking ministerial approval to release the £7m for the Net Zero Fund prior to the MCA order being passed and MCA being established. It is expected that the funding will be received from Government in December 2023.

6.0 FINANCIAL IMPLICATIONS

- 6.1 As outlined earlier in the report, should the recommended option be approved, costs of £7.5m will be incurred against the available funding of £7m. An allowance of £350k has been made for essential programme management and other associated support service costs, meaning that all costs have been considered and there will be sufficient resource to ensure delivery of the approved schemes. All costs will be closely monitored. The recommended option will require funding of £0.5m to be notionally allocated from the Mayoral Investment Fund. In relation to the applicants of the Net Zero Fund, as stated within the fund's Prospectus, 'all activity and expenditure, up to the order being passed by Government, is undertaken at the applicant's risk'.

8.0 LEGAL IMPLICATIONS

- 8.1 A formal funding agreement will be put in place for each project. The funding agreements will be developed to address any potential legal issues arising. All shortlisted projects will be required to submit a UK Subsidy Control Assessment before receiving funding to ensure compliance.

9.0 CLIMATE CHANGE IMPLICATIONS

- 9.1 The Net Zero Fund has been established to support York and North Yorkshire reach its ambition to be a carbon negative region, and hence address climate change. The delivery of the NZF will make a significant contribution to reducing Greenhouse Gas Emissions (GHGs), alongside improving natural carbon sequestration.

10.0 EQUALITIES IMPLICATIONS

- 10.1 No equalities implications are anticipated at this stage. As part of the initial assessment process, each project has been required to pass a gateway check of ensuring the project will deliver public or communal benefit. This will ensure the benefits of each project will not only accrue to a single organisation or individual.

11.0 REASONS FOR RECOMMENDATIONS

- 11.1 As referenced in '3.0 Appraisal Process and Outcome', recommendations for shortlisted projects have been based on a thorough independent appraisal and a decision is required to enable the delivery of the £7m by the end of March 2025.
- 11.2 The programme management budget incorporates the costs for both developing and delivering the programme and is vital to ensuring the effective management of the Fund.
- 11.3 The level of over-commitment of funding is recommended to reduce delivery risk and ensure the full £7m is delivered.
- 11.4 Delegated responsibility to the Director of Transition, in consultation with the Chief Executives from both York and North Yorkshire Council to approve any minor adjustments to grant funding amounts to projects is required in the case of any changes to projects.

12.0 RECOMMENDATIONS

Subject to the final Net Zero programme level business case being approved by Central Government and the release of the £7m grant funding, the Joint Committee is recommended to:

1. Delegate authority to the NYC Corporate Director for Finance (S151) to accept the £7m grant funding.
2. Approve £905,514 towards the proposed revenue programme (as detailed in section 4.2).
3. Approve £6,281,224 towards the proposed capital programme (as detailed in section 4.5).
4. Approve £350,000 towards the programme management costs (for the purposes set out in section 4.8).
5. Note that the total Net Zero programme budget is £536,738 more than the grant available.
6. Approve this over commitment (up to a maximum of £536,738) to be funded from the Mayoral Investment Fund.

7. Delegate responsibility to MCA Director of Transition, in consultation with the Local Authority Chief Executives, to approve any minor adjustments to proposed grant funding amounts to projects.
8. Note that the delivery of the proposed Net Zero Fund programme will lead to substantial Greenhouse Gas (GHG) Emissions reductions, making a significant contribution to York and North Yorkshire's ambition to be net zero by 2034.

APPENDICES:

None

James Farrar – Interim Director of Transition
13 October 2023

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Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.