**SPECIFICATION SECTION 7 (TLT 02032021)**

**FUNDING, PAYMENT AND PERFORMANCE**

1. **Budget**
   1. The Authority’s budget for the agreement is set against the Lot Area for the agreement. Additional funding may be made available from other sources such as the Energy Companies Obligation or any other arrangements for subsiding Measures.
   2. The budget includes the cost of Installation of Measures (Capital or Ancillary) and Management Fees.
2. **Potential market**
   1. The Delivery Organisation is responsible for marketing the Scheme. The Delivery Organisation must respond to all related enquiries.
   2. The Authority has analysed the data[[1]](#footnote-2) and understands there to be a large potential market. Further detail on the market is provided in the Lot information for each Lot/ LEP area.
   3. The Authority envisages holding conversations with local authorities to determine what measures may work locally, and with social housing providers to determine whether there are projects ready to go when the Mobilisation Period is completed.
   4. For the avoidance of doubt, the Authority accepts no liability for any Delivery Organisation losses, resulting from, but not limited to, the following circumstances:
      * Variation in demand from the potential identified in the Lot data.
      * Variation in demand for different types of Measures. Tenderers must ensure that the price for each Measure is self-sufficient and does not rely on cross-subsidy from other Measures.
      * As a result of any errors or inaccuracies or wrong assumptions made on the part of the Delivery Organisation.
   5. Some attrition should be expected, but the Delivery Organisation is expected to minimise attrition levels as far as possible through its eligibility checking procedures and good Customer management.
3. **Overview of pricing structure**
   1. Pricing is based on known house types (detached, semi-detached etc), the average size of these house types per Lot and a means for variation from the average (smaller/larger). Please refer to Lots for separate detail.
   2. For each Measure: there are six Measure Prices, one for each House Type.
   3. For Lots 6 and 7, there is a requirement to provide a delivery price for any installations taking place on either the of Scilly or Isle of Wight respectively. It is accepted that transporting both materials and installers to these locations will incur additional costs. These costs should not be borne across installations on the mainland in a cross subsidy and will only be applicable when installations are invoiced for works completed on these islands.
   4. There is a single Management Fee, chargeable for each property. The Management Fee is split into a non-performance-related element (70%) and Performance Fees (30%) paid according to performance against the KPIs.
   5. There is only one Management Fee chargeable per property. There is an expectation that the Delivery Organisation will ensure that all Highly Recommended Measures identified on the report will be installed if affordable within the grant limitations. This is also extended to Measures not marked Highly Recommended but within the grant funding limitations. For the avoidance of doubt, if the Authority receives invoices with only 1 Measure installed yet further measures were recommended and are affordable, there will be further investigation by the Authority as to why additional measures were not installed at the Dwelling. The Lot installation numbers are based on an average spend of £10,000.
   6. The Customer will only be able to choose from Measures recommended by the Retrofit Coordinator. Certain Measures will be Highly Recommended (see 6.0 Document 6 Technical Specification), with a view to ensuring that the fabric of the building is improved and demand for heating is reduced before new heating systems or renewable energy generation is installed.
   7. The grant allocation to the Lot Area is detailed Schedule 3 (Charges and Payments) and falls into two sections:
      * Owner Occupiers – an average grant of £10,000
      * Social and Private Landlords – an average grant of £5000, but only when matched with a customer contribution of at least one third the total cost.

The number of measures that can be installed in a single Dwelling is limited by the value of the grant. As a general rule, it should be considered that the maximum grant is £10,000 for each owner occupier Dwelling, however, it is understood that many Dwellings will not reach the grant limit, thus providing opportunities for a few Dwellings to benefit from a higher grant funding to enable installations. If these circumstances occur the Delivery Organisation must consult with the Authority for approval prior to commencement.

Dwellings that able to receive a grant award higher than the average maximum is reserved for instances where the cost of achieving an installation would not otherwise be met by the grant funding value and no other improvements would be possible on that property.

It is the Delivery Organisations responsibility to manage the grant funding and apply this approach ensuring appropriate use of funding.

* 1. Any Customer Contributions shall be charged at the rates set out in at Annex 1 (Measure Prices) to Schedule 4 (Charges and Payment) of this agreement.

1. **Measure Prices and Delivery Prices** 
   1. The Delivery Organisation is to provide a set of prices for each of the Measures set out in 3.0 LADs2 Document 3: Pricing Schedule. A Measure Price is required against each house type. This is the price that will be paid for that measure for each installation of a Dwelling of that size (6.0 Technical Specification 2.19.1).
   2. Where the Dwelling is smaller or larger than the average Archetype used, the Delivery Organisation will apply the agreed percentage increase or reduction from the average archetype price.
   3. All prices provided in the Tender are to be exclusive of VAT. All Measures are to be installed to the standards set out in 6.0 LADs Document 6 Technical Specification and to be priced accordingly.
   4. The price paid by the Authority in respect of any Measure installed will be the Measure Price plus the Delivery Price allowable under Lots 6 and 7, Ancillary Costs where appropriate and the Management Fee.
   5. The Measure prices tendered will apply for the duration of the contract.
2. **Measure Prices: non-standard Properties**
   1. The Technical Specification sets out the standard sizes for the Average House archetypes.
   2. Where the Dwelling deviates from the average sizes (e.g. floor area, external wall area or number of rooms) this will be reflected by applying a percentage increase or decrease for larger or smaller than average Dwellings. These prices are capped at 50% of the average size Dwelling based on the most appropriate unit of measure for the Measure being installed. If a Dwelling size falls outside these capped sizes, the Delivery Organisation will consult with the Authority and seek approval for the cost of the work before any work can proceed.
   3. For the avoidance of doubt, each Dwelling must be categorised into one of the Average Housing Archetypes listed in [3.0 LADs2 Document 3: Pricing Schedule. The variation from the average is based on the most appropriate metric for the measure in question.]
   4. This can be calculated as follows:
   5. Where the Assessment identifies the Dwelling as being larger or smaller than the average a calculation will be made to understand the percentage difference from the average Dwelling as identified in the Archetype. Where a property is smaller than average the reduction in size is calculated from the lower end of the average range. For example; if the range is 45-55m2, the calculation will be made from 45m2. Where this is equal to or less than the average for that Measure, (as set out in the Archetypes tab of the 3.0 LADs2 Document 3: Pricing Schedule), then the price charged is the average price for that given Archetype and Measure minus the appropriate percentage reduction equal to the percentage difference for the size of the Dwelling as tendered by the Delivery Organisation.
   6. The table below illustrates a number of scenarios against a number of Archetypes.
   7. In this worked example the average house size is taken as the whole range - for example 60-69m2 for a flat.
   8. When a property doesn't fall into this category, and is smaller as described in column C, the percentage floor area difference is calculated by using the lowest average meterage (60m2) and working out the percentage difference to the size of the property as measured - in this example 42m2. This works out as a -30% difference. This percentage difference is then taken off the average archetype Measure price.

|  |  |  |  |
| --- | --- | --- | --- |
| Column A | Column B | Column C | Column D |
|  | Average | Example A | Example B |
| Flat | 60-69 | 42m2 | 107m2 |
| 0% | -30% | 55% |
| £1,500 | £1,050 | £2,250.0 |
| Mid Terrace | 40-49 | 19m2 | 68m2 |
| 0% | -53% | 39% |
| £1,950 | £975 | £2,710.50 |
| Semi-detached | 110-119 | 153m2 | 180m2 |
| 0% | 29% | 51% |
| £12,500 | £16,125.00 | £18,750.0 |
| Detached | 6 | 9 | 10 |
| 0% | 50% | 66% |
| £4,500 | £6,750.00 | £7,470.0 |

1. **Installation Price**
   1. The Delivery Organisation will be paid the Measure Price with funding from the Authority, or a combination of funding from the Authority and the Social or Private Landlord Customer Contributions.
   2. The Funder has determined that owner occupier customers are unable to pay a contribution to the cost of their installations.
   3. Subject to Measures being chosen and installed in accordance with this agreement, the Authority will pay the Delivery Organisation the Measure Price for the Measures installed. [The maximum funding the Authority can pay is detailed above in Overview of Pricing Structure, 3.0.]
2. **Grant funding**
   1. The Customer will be offered a range of Measures by the Retrofit Coordinator. Depending on the Customer (Owner Occupier or Landlord) some or all of the Measures will be fully funded by the Authority and some of which may attract a Customer Contribution. **Note that the Customer has no entitlement to any or all the available Grant.**
   2. Subject to funding availability and the Lot Area Financial Limit the Authority will make available an amount of Grant for every Customer who meets the Eligibility Criteria.
   3. The Customer is not able to cross fund the installation of any one measure with funding from any other grant or funding source (GHG vouchers, LADs1a and 1b, ECO etc.)
   4. The Customer can have measures installed via other funding mechanisms (e.g. LAD 1a and 1b) but this must be for separate measures and cannot exceed the **maximum total value** as detailed in the funding criteria. For the avoidance of doubt this is £10,000 for owner occupiers and £5,000 for Landlords.
   5. For the avoidance of doubt, ECO can only be used for measures not funded by the LADs funding.
   6. RHI funding can be used in conjunction with the LADs funding, though the value of any RHI used to subsidise upfront costs will be removed from any regular RHI payments as the RHI rules on funding state.
   7. The Customer is not entitled to any grant funding and no funding will be paid directly to the Customer.
3. **Customer Contributions**
   1. Customer Contributions are only accepted for Social and Private rented properties.
   2. Customer Contributions should be cost neutral to the Delivery Organisation (i.e. not provide a source of profit or a cause of loss but merely a different funding source). Customer contributions should be charged at the same rate as agreed Measures costs.
   3. Customer Contributions charged under paragraphs 8.1 above will be kept by the Delivery Organisation.
   4. The Delivery Organisation can charge the Customer Contribution element of a Measure as a deposit against the installation or can collect the contribution following completion of the works. It should be noted that:
      * The Authority will not be liable for any Customer Contributions not collected by the Delivery Organisation
      * The Authority will not release funds for the installation of a Measure until the Measure is signed off as complete (see Customer Journey and Retrofit Coordinator roles) by the Customer and Retrofit Coordinator, and all MI requested by the Authority is received in respect of that installation.
   5. The Delivery Organisation must not charge a Customer Contribution in any circumstance other than set out in these documents. Where the Authority has prohibited Customer Contributions, then no Customer must be allowed to select a package of Measures for which the totalled Customer Prices exceeds the available Grant except where it can be demonstrated that there is sufficient underspend against other installations that this can be aggregated to be a maximum £10,000 spend per property.
4. **Measures**
   1. The Customer may choose Measures subject to the following constraints:
5. the Measure(s) must be listed on the eligible measures list (pricing spreadsheet);
6. the Measure(s) must have been identified in the Retrofit Coordinator’s Report as a Measure(s) suitable for the Dwelling;
7. if the Measure is a heating Measure, the Measure must comply with the fuel type restrictions (see paragraph 10) for the Dwelling;
8. the Customer must pay (or put in place a payment plan for) any Customer Contribution required (where allowable).
   1. Additionally, the Delivery Organisation will assist the Funder with their technical monitoring requirement as set out in the Customer Journey, paragraph 21.5. Customer participation in the technical monitoring element is optional, though the Authority encourages participation to help determine effectiveness of improvements for increasing comfort, reducing customer costs (energy bills) and how the Authority is performing against its Carbon Reduction targets.
   2. As a percentage of the total monitored properties required through the LADs2 programme, per Lot Area the Authority anticipates a total of 10 properties are monitored in the monitoring options where data loggers or air-tightness tests are required.
9. **Fuel type restrictions**
   1. The Authority requires the agreement to deliver carbon emission reductions and therefore wishes to see a move away from high carbon fuels.
   2. No fossil fuel burning heating systems are to be installed or replaced through this funding stream.
   3. Heating system replacements should be a transition to low carbon fuels with low running costs – e.g. heat pumps.
   4. Where a Customer’s fossil fuel heating system (gas, oil, LPG, solid fuel) is being replaced with a low carbon heating system, the Delivery Organisation, in conjunction with the Retrofit Coordinator and Installer must ensure that the new system is economically advantageous to the Customer.
   5. Where a heat pump is recommended to replace the Customer’s existing heating system, the Retrofit Coordinator and Installer must ensure that the Customer understands the difference between how their new heating system generates space heating compared to their old system.
   6. No Customer will receive a new or replacement solid fuel heating system, except where the fuel for the system to be installed is biomass. In such cases, the Delivery Organisation will be required to meet the following additional criteria:
      * That the operational costs for the biomass boiler will be no more than the average annual cost of a gas central heating system;
      * Demonstration that the biomass to be used can be sourced sustainably and can demonstrate a maximum 10% water content for pellets and no more than 20% for kiln dried logs;
      * Why biomass is the most appropriate technology for the proposed location; and
      * How it complies with the clean air requirements of the RHI.

1. The data is taken from a bulk download and therefore represents the known data before a date in time. It therefore cannot be an accurate representation of the current situation but does provide a snapshot to determine the likely market. [↑](#footnote-ref-2)