

**Report of: Deputy Leader and Executive Member for Housing and Development**

| <b>Meeting of:</b> | <b>Date:</b>    | <b>Ward(s):</b> |
|--------------------|-----------------|-----------------|
| Executive          | 13 January 2022 | All             |

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|                               |               |                   |

**SUBJECT: Bids to the Social Housing Decarbonisation Fund****1. Synopsis**

- 1.1 The government has launched the Social Housing Decarbonisation Fund (SHDF) in the late summer, inviting bids from social housing landlords to improve the energy efficiency of their properties on a 'fabric first', 'no regrets' basis. This is the first wave of the funding and required landlords to have progressed schemes that could be delivered between January 2022 and January 2023. Future waves are expected and further bids will be made.
- 1.2 The fund is focussed on properties with an EPC rating of D and below and raising these to a category C EPC rating. There is a concentration of these lower rated properties within our street property stock and therefore the street properties pilot schemes provided the best opportunity to submit a bid for this funding. The bid seeks to bringing 32 low performing homes (D and E rated) to a category C level through a mixture of insulation and double-glazing installation. This report seeks permission to accept the funds and sign the required Memorandum of Understanding (MoU) with the Department for Business, Energy and Industrial Strategy (BEIS) should the bid be successful.
- 1.3 The opportunity to bid for funding was also open to Housing Associations, through the relevant local authority and Peabody Trust approached the Council to bid on their behalf. We were pleased to support them with this and are therefore seeking permission to accept funds on their behalf, should their bid be successful, and enter into the required MoU with BEIS and a related MoU with Peabody Trust to pass on the funding and delivery responsibilities to them for their bid.

## **2. Recommendations**

- 2.1 That should the council's bid for funds for energy measures to 32 street properties to the Social Housing Decarbonisation Fund be successful, that the council enter into the necessary Memorandum of Agreement with the Department for Business, Energy and Industrial Strategy (BEIS) to access this funding.
- 2.2 That the council should enter into a MoU with BEIS to accept the funding available, should the council's bid, submitted on behalf of Peabody Housing, for energy works to four buildings (totalling 66 dwellings) they own in Islington, be successful. That the council will enter into a related MoU with Peabody Trust to pass the funding and responsibility for delivery to Peabody Trust and any funding payback requirements stipulated by BEIS.

## **3. Background**

### **Social Housing Decarbonisation Fund**

- 3.1 The Government have announced a commitment to invest £3.8b over the next 10 years on energy efficiency and carbon reduction through the Social Housing Decarbonisation Fund (SHDF).
- 3.2 The SHDF has a 'fabric first' and 'no regrets' ethos and the new PAS2035 process, which social landlords are expected to follow, requires measures to be considered in the most cost effective order. The aim of the funding is to support social landlords to carry out works to help them bring homes up to an EPC C level, which is the target level government has set for all social housing by 2030. Although there are some questions as to whether EPC ratings are the right measure in the context of carbon reduction, they do seek to provide measures that will undoubtedly bring carbon savings and result in costs savings to residents, an important issue for our council tenants, as gas price rises will bring more householders into fuel poverty.
- 3.3 The Social Housing Decarbonisation Fund is a great opportunity for the council to access funding to help achieve its ambition to become Net Zero Carbon by 2030 and to help tackle fuel poverty. This bid will allow us to develop our understanding of how best to improve the energy ratings of our street properties, supporting residents with the cost of heating their homes and reducing the carbon emissions from these traditionally leaky and colder properties. The fabric first approach, whilst not offering the greatest carbon saving, does focus on the cost of living for social housing tenants, which we know from feedback from residents is a major concern to them. By improving the energy efficiency of street properties, we will also be preparing them for possible future heat pump installation as these only work effectively in well insulated buildings.
- 3.4 Funding levels under SHDF are generally more generous per property than have been seen under other recent schemes, such as Green Homes Grant, and are based on the starting position of the property and the requirement to bring up them up to the minimum C level:

| Starting EPC | Max. SHDF Funding | 1/3 Match Funding required | Total Maximum Funding |
|--------------|-------------------|----------------------------|-----------------------|
| D            | £10k              | £5k                        | £15k                  |
| E            | £12k              | £6k                        | £18k                  |
| F            | £16k              | £8k                        | £24k                  |
| G            | £16k              | £8k                        | £24k                  |

3.5 The criteria focuses on fabric related measures, such as insulation (internal, cavity, external, loft and underfloor), doors and windows upgrades and only if these more cost effective measures cannot achieve a category C performance, can low carbon heating systems be considered for the achievement of the required level. The funding applies to all types of social housing. Bids cannot include more than a 30% non-social housing element, where leaseholder costs are being sought. It is also not possible under the scheme criteria to include measures on leaseholder properties that are possible to exclude from the programme, for instance window or door replacements, which can be included on a per property basis. Where leaseholders are included in the scheme they have to make a contribution of at least a third towards the works, unless they have an annual household income of under £30k. There is some scope for including properties in the funding, which are above a C level, where they cannot be left out of a measure that has to be applied to a whole block, but the scheme guidance is clear it would only be appropriate to include a small number of this type of property, where there is clear justification. The demonstrator funding round used to inform the SHDF rejected a high proportion of bids for not meeting the criteria, so it was important to deliver a bid meeting the scheme requirements in order to stand a good chance of being successful.

3.6 Due to proactive work by the council over a number of years to attract external funding for large-scale insulation schemes, 87% of the council's directly managed stock already meets the minimum C rating on the EPC. This means that generally those remaining at a lower rating are dispersed throughout our stock, most predominantly in our street properties. Even within our street property blocks some flats can have higher ratings than others, due to their position within the property, number of external walls and roof space, where heat loss is usually greatest. None of the pilot properties are within listed buildings, but we know that there will be costly challenges to overcome for these buildings to meet the targets.

### **Street properties wave 1 bid**

3.7 Wave 1 of the funding was open for applications from late August with bids needing to be submitted by 15<sup>th</sup> October. Funding is due to be available from January 2022, with an expectation that works must be completed by January 2023. Because of the delivery timetable, schemes had to be using existing procured contracts and advanced in the consultation processes with residents, in order to meet the requirements of the bid and give BEIS confidence in delivery. All imminent capital works schemes were considered for suitable properties and the current street properties pilot packages were identified for a bid submission that could meet with the bid criteria and timeframes. 32 of the 118 tenanted properties in the programme were assessed as currently at a category D or below. Therefore, a bid was developed to carry out works to raise these 32 properties to a C rating. Measures were selected to maximise energy savings, whilst minimising disruption to residents.

- 3.8 The bid includes a mixture of measures including; replacement of single glazing with double-glazing, maximisation of roof space insulation and within 17 properties internal wall insulation. The bid is an opportunity to trial internal wall insulation in homes, as we know this is a more challenging measure to install and more disruptive for residents in their homes.
- 3.9 Landlords are required to fund a third of the costs of the works to improve the energy ratings of these properties as a minimum and they can bid up to a maximum of £10k per property raised from a EPC level D to level C. The total value of the works submitted as part of the bid is £810,727 and the total value bid for (including some allowable on-costs) was £372,600. A 54% contribution from the council was required in order to deliver sufficient measures to raise homes to an EPC category C rating, in a way suitable for older street properties. It is recommended that, should the bid be successful, that the Executive should give their permission for the Memorandum of Agreement (MoU) with BEIS to be entered into for the grant funding for this project, under the predetermined proposed terms of the agreement. Any failure to deliver the scheme in line with the bid and agreement may lead to the handback of the grant funding secured, but we are confident that the scheme is sufficiently progressed to mitigate this risk.

### **Future opportunities to bid to the Social Housing Decarbonisations Fund**

- 3.10 It is anticipated that the SHDF will be available on an on-going basis, with similar criteria for works and funding and therefore we will be planning to make further bids on this basis, considering how best to access funding for properties within our stock that are below the EPC level C. We will be looking first at properties that are in our current programmes and could benefit from this funding ready for wave two, which is expected to take place during the Spring 2022 for delivery between June 2022 and June 2023. We are also looking at how lower rated properties, which are pepper potted throughout our street property (more so) and block and estate stock (less so) could be brought forward within our investment plans to take advantage of this funding opportunity over future waves.

### **SHDF bid on behalf of Peabody Housing**

- 3.11 For the first wave of bids, all bids for social landlords had to be submitted through the relevant local authority. Peabody Housing Trust contacted the council to request for a bid to be submitted on their behalf for four buildings (totalling 66 dwellings) they own within Islington. The council is keen to work with social landlords across the borough to reduce carbon emissions and improve the energy efficiency of buildings and therefore welcomed this opportunity to support Peabody Trust with their bid.
- 3.12 The council therefore submitted a bid on behalf of Peabody Trust for a funding contribution of £784,922 towards a project of a total value of £1,285,051 to improve the energy performance of 66 social rented homes through external wall insulation, cavity wall and loft insulation and replacement of single glazed windows with triple glazing.
- 3.13 If the bid is successful the council would be required to sign a MoU with BEIS to accept the funding and terms and conditions of this on behalf of Peabody and have agreed

with Peabody a MoU that they would enter into with the council, making the same commitments to the council. Any return of funding required by BEIS, should the project not be delivered in line with the bid proposals, would be returned to the council by Peabody and in turn by the council to BEIS. It is therefore recommended, that should the bid be successful, that the Executive give their permission for the MoUs with both BEIS and Peabody to be entered into for the grant funding passing on the responsibility for delivery of the project and any return of funds to BEIS through to Peabody Trust.

### **Feedback to BEIS on funding criteria limitation**

- 3.14 Because of the high levels of leaseholders within the council's stock, the cap of 30% non-social housing within the SHDF criteria may well make bidding for this or other forms of funding problematic for the council in future. Therefore, the Director of Housing Property Services will be seeking to raise this through the London Council's Retrofit London Programme as a key issue for London Boroughs in their ambitions to decarbonise.

## **4. Implications**

### **4.1 Financial implications:**

In October 2021 the Council submitted 2 grant bids to the Dept. for BEIS for Social Housing Decarbonisation Funding, the aim of this funding source is to support social landlords to carry out works to help them bring low energy efficient homes up to an EPC level C.

The grant terms set out at point 3.4 create 2 limiting factors; 1. A limit on the amount of funding available per property, depending on the property's current EPC rating and 2. As a minimum the social landlord has to match fund 1/3<sup>rd</sup> of the total costs.

The 2 bids referred to in this report comprise;

**1.** A bid for funding of £372.6k in respect of 32 low performing Council owned homes currently at EPC D&E level. The estimated cost, primarily relating to insulation and double glazing, of bringing these 32 properties to EPC level C is £810.7k, **the HRA contribution in accordance with the grant terms is £438.1k** (54% of total costs).

There is sufficient budget provision within the HRA capital major works 2021-22 & 2022-23 cyclical improvement programmes to meet these costs.

The Housing Department are confident that this project can be delivered within the time frame required and within the total estimated cost referred to in the report, on the basis that planning permission has been secured, much of the tenant consultation has already taken place, the contractor is lined up & ready to proceed & costs have been compiled in detail based on contractor prices & with reference to property specific requirements.

**2.** A bid to improve the energy performance of 66 social rented properties located in Islington submitted on behalf of the Peabody Trust in the sum of £784.9k that requires

the Peabody Trust to make a contribution of £500.1k (39%) towards a total cost of works in the sum of £1.285m.

In order to accept receipt of both grants the Council will need to enter into a memorandum of understanding with the Dept. for BEIS.

Point 3.13 indicates that in the event the Council or the Peabody Trust do not deliver on the project i.e. any properties not brought up to EPC level C within the required time frame would result in the grant for those properties would be clawed back in full.

In order to mitigate against this risk in terms of the grant bid made on behalf of the Peabody Trust the report recommends that the Council also enters into a legal agreement that assigns the risks & responsibility for delivery & the risk of grant claw back to the Peabody Trust.

## **4.2 Legal Implications:**

This report seeks authority to apply for the Social Housing Decarbonisation Fund from BEIS. The SHDF Wave 1 is available to Registered Providers (RPs) of Social Housing, including Private and Local Authority (LA) providers. Private Registered Providers including Housing Associations such as the Peabody Trust must apply within a consortium with a lead LA.

The funding is in line with the UK's obligations and commitments to Subsidy Control, outlined in the EU-UK Trade and Cooperation Agreement (TCA). Currently there are no upper limits to the amount of money that can be applied for under the TCA.

Where a subsidy is being awarded, applicants need to ensure compliance with the [TCA principles](#), including a justification as to why the subsidy is proportionate and limited to achieve the relevant objective.

Where grant funding will be passed from a lead Local Authority to a Private Registered Provider, for example Housing Associations, as part of a consortium this will be considered a subsidy in accordance with the task of social housing under Services of Public Economic Interest. The Local Authority will need to ensure compliance with the subsidy control rules. In instances of a Local Authority using grant funding on their own social housing stock – this will not be considered a subsidy.

Where a subsidy is being awarded, applicants need to ensure compliance with the [TCA principles](#), including a justification as to why the subsidy is proportionate and limited to achieve the relevant objective.

The council may adopt an energy strategy including bidding for funds for energy measures to effect the reduction of carbon emissions under the powers granted by section 111 of the Local Government Act 1972 which enables the council to carry out any activity that is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

The council may enter into the MoU's by virtue of section 1 of the Local Government (Contracts) Act 1997.

Officers are satisfied that grant conditions will be met as set out in the BEIS guidance when entering into a Memorandum of Agreement.

#### **4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

The main environmental implication of this project will be significant energy and carbon savings across both the Islington and Peabody properties:

- Islington bid annual savings – Energy 98,193 kWh – CO<sub>2</sub>– 19.93 tonnes
- Peabody bid annual savings - Energy 211,334 kWh – CO<sub>2</sub>– 42.89 tonnes

There will be embodied carbon in the materials used and transport emissions in installation however, this will be far outweighed by the ongoing carbon reduction from the improvements in energy efficiency of homes.

#### **4.4 Resident Impact Assessment:**

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

An initial equalities impact assessment was carried out and no discernible impacts were identified and a full equalities impact assessment was therefore not required

### **5. Reason for recommendations**

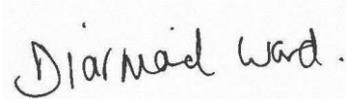
- 5.1 The council had the opportunity to bid for government funding to support our ambitions to improve the energy efficiency and reduce carbon in some of our most challenging street property homes. A bid has been submitted for £372,600 funding to support improvements to 32 street properties that met the criteria and challenging delivery timetable. We have to learn from this pilot and continue to take advantage of future bidding waves. The improvements bid for, once installed, will help residents in some of lowest EPC rated homes to heat their homes more efficiently, helping to tackle the growing problem of fuel poverty. The council are also please to support the Peabody Trust to make a bid to insulate some if its older homes, improving the energy rating of 66 properties in Islington, again supporting residents with the cost of heating their homes and contributing to the borough carbon reduction ambitions.

**Appendices:** None

**Background papers:** None

Final report clearance:

**Signed by:**

A handwritten signature in black ink that reads "Diarmaid Ward." The signature is written in a cursive style and is placed on a light-colored rectangular background.

24 December 2021

Deputy Leader and Executive Member for  
Housing and Development

Date

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