

Report of: Executive Member for Homes and Neighbourhoods

Meeting of:	Date:	Ward(s):
Executive	23 rd March 2023	All

Delete as appropriate:	Exempt	Non-exempt


SUBJECT: Wave 2.1 bid to the Social Housing Decarbonisation Fund**1. Synopsis**

- 1.1 The government launched wave 2.1 of the Social Housing Decarbonisation Fund (SHDF) last autumn, inviting bids from social housing landlords to improve the energy efficiency of their properties on a 'fabric first', 'no regrets' basis. This is the second wave of the funding and required landlords to have progressed schemes that could be delivered between April 2023 and September 2025. Future waves are expected and further bids will be made.
- 1.2 As with wave 1 (which the council successfully bid for in the spring 2022 with a small bid for 32 street property homes), the fund is focussed on properties with an EPC rating of D and below and raising these to a category C EPC rating. This wave of SHDF provides the opportunity for social housing providers to bid for 50% of the cost of works to improve the SAP banding of its properties. The government contribution is capped at 50% with social landlords having to contribute a minimum of 50% towards the costs of measures, contributions are also capped on a per property basis depending on the current SAP banding of the property.
- 1.3 This report sets out details of the bid submitted in November 2022, which if successful will deliver improvements to 371 homes. We are seeking £3.102m of capital costs and ancillary costs from the Government and committing to investing £4.340m of the housing capital programme during 2023/24, 2024/25 and 2025/26. The report confirms the allocation of capital resources for all co-funded elements of the bid and seeks agreement to accept the funds and sign the Grant Agreement with the

Department for Business, Energy and Industrial Strategy (BEIS) should the bid be successful.

2. Recommendation

2.1 To enter into the necessary Grant Agreement with the Department for Business, Energy and Industrial Strategy (BEIS) to access this funding and carry out works under the scheme, should the council's bid for funds for energy measures to 371 homes (308 tenanted and 63 leasehold) submitted on 18th November 2022 be successful.

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. There has been some questions raised as to whether EPC ratings are the right measure in the context of carbon reduction, because certain low carbon measures such as heat pump installation can reduce the EPC rating level due to the high running costs. However, the balance between measures, investment cost and on-going running costs does mean measures under the scheme are focused on resulting 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	1/2 Match Funding required	Total Maximum Funding
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D	£10k	£10k	£20k
E	£12k	£12k	£24k
F	£16k	£16k	£32k
G	£16k	£16k	£32k

3.5 Social landlords are required to provide a minimum of a 50% contribution towards the costs of the works being delivered under any bid and are discouraged from bidding for the maximum allocation of funding available, unless the works required to meet a category C EPC require a higher level of contribution. Improving fabric measures in homes will help ready them for future low carbon, lower temperature systems, which can only provide sufficient heat in well-insulated homes. Therefore, the fund is an excellent opportunity to gain financial support from the government to improve the fabric of our lowest rated properties.

3.6 Over 74% of the council's currently directly managed stock already meets the minimum C rating on the EPC. This is thanks to the proactive approach of the Energy and Housing Teams of accessing previously available grant funding to insulate and clad our housing wherever feasible. It is worth noting that this energy database now includes the returned PFI2 stock. This has only just recently been uploaded into the system and so both the data and ratings are raw in its infancy. Prior to the inclusion of PFI2 stock and when bidding for Wave 1, the data showed that 2,665 properties were below the standard, but with the inclusion of PFI properties there are now 6,265 that fall below. This demonstrates the challenge we have remaining is to delivery energy improvements to some of our most challenging stock.

3.7 There are some draw back with the restrictions included in the bid criteria, which are:

- Bids can only include measures for leaseholders if they cannot be delivered to tenanted properties without their inclusion, such as cavity-wall and external wall insulation.
- A maximum of 30% non-social housing properties can be included in the bid for those types of measures
- Low carbon heating systems can only be included if all other feasible fabric measures cannot achieve a category C, and they require running costs to be lower than alternative heating options (before the applications of the fabric measures).
- Only a small number of properties already at EPC rating C or above can be included in the bid to facilitate works to those properties below this level, which makes it more challenging where on estates our properties under SAP banding C can be pepper potted across the estate.
- Planning constraints on listed buildings may hamper our ability to raise buildings to the category C level and for some buildings this may not be possible, although the work on street properties mean we are developing approaches for older properties with planning colleagues.

Street properties wave 1 bid

- 3.8 In order to be successful and ensure that we are meeting the criteria, we reviewed all projects that are in the aligning capital delivery window. Bidders needed to provide clarity on the measures to be delivered and the properties they are being delivered to, reassurance that contracts are in place, consultation with residents underway, provide accurate pricing for all the works within the scope of the bid and demonstrate their detail project management arrangements. Submitting properties that are in the aligned capital window means this is possible, and the delivery window can be met.
- 3.9 Unlike our Wave 1 bid, our wave 2.1 bid is taking in all property types within our investment programme. BEIS also require a minimum of 100 properties to be submitted as part of the bid. In anticipation for the bid, we used the PAS process to look at what buildings within the current programme could be included. We have considered everything in the Mears programme and have also considered all street properties. Properties that would be eligible for roof insulation have also been assessed to see if this measure would improve their EPC rating to a C.
- 3.10 Due to the complexity of the PAS process and procurement measures, and the ability to get a hold of qualified assessors to evaluate measures, we could not include properties in the Vinci programme ahead of the bidding window, however these properties could be used as a back-up if any issues arise with delivery on the submitted properties, which has been necessary for other bids within the wave 1 programme.
- 3.11 The bid was submitted for 371 homes, seeking £3.102m of capital costs and ancillary costs from BEIS and committing to investing £4.340m of the housing capital programme during 2023/24, 2024/25 and 2025/26. If successful in the bid the council will be required to enter into a grant agreement with BEIS and this draft agreement has been reviewed by the council's legal team.

Street properties included in the bid

- 3.12 58 street properties that have been assessed as being at a D SAP band, where measures could be identified to bring those properties to a C banding. These have all been fully surveyed by Osborne Energy under the PAS 2035 process and all measures identified have been priced for the bid. The measures to be carried out if the bid is successful includes a mixture of measures including; replacement of single glazing with double glazing, maximisation of roof space insulation, and internal wall insulation.

Estate Properties included in the bid

- 3.13 313 estate-based homes have been assessed by Mears or Ridge using the PAS 2035 process for measures that will raise their SAP bandings from below to SAP banding C. The surveys carried out have included full property surveys, mixed with cloning properties to allow a larger number of properties to be assessed in the time available. This level of assessment gives good assurance that properties are eligible and measures can deliver the increased SAP points needed to increase the SAP banding. The measures to be carried out if the bid is successful includes a mixture of measures including loft insulation, double glazing, installing LEDs and cavity wall insulation.

4. Implications

4.1 Financial implications:

- 4.1.1 Social Housing Decarbonisation Fund Wave 2.1 funding will be allocated to successful bids on a co-funding basis, with the applicants being required to fund at least 50% of total eligible costs. The amount of funding per property is further limited by current EPC rating and whether the walls are solid or have cavities. The Council submitted a bid to the Fund seeking funding of £3.102m to support the upgrading of 371 properties within the borough.
- 4.1.2 Within the 371 properties, there are 63 properties that are privately occupied by leaseholders or freeholders. The rules of the fund allow for 30% of the properties included in the bid to be non-social housing where they form part of a block or terrace with social housing properties. Where a non-social house is included in the bid, costs should be recovered from the owner, up to a ceiling of £3,300 with the balance being funded by the SHDF. If a contribution from a leaseholder or freeholder is withheld or refused, the applicant may be required to underwrite this.
- 4.1.3 The total capital cost of the proposed works is £6.728m, with a further £0.887m bid for ancillary and administrative costs. The funding of the proposed programme is broken down as follows:

	Social Housing (£m)	Non-Social Housing (£m)	Total Cost (£m)
Works costs bid to Social Housing Decarbonisation Fund	1.867	0.347	2.215
Contributions from Leaseholders and Freeholders	-	0.174	0.174
Co-funding contribution from LB Islington	4.340	-	4.340
Total Works Cost	6.207	0.521	6.728
Ancillary and administration costs bid to SHDF	0.887	-	0.887
Total Cost	7.095	0.521	7.616
Total Bid	2.755	0.347	3.10

- 4.1.4 The HRA Capital Major Works budget setting process carried out in 2022 updated the budget for the 2023/24, 2024/25 and 2025/26 financial years. Works funded under SHDF need to be completed by 30th September 2025. A budget of £3.275m has been allocated across the three years to support Energy Efficiency measure with a further £2.686m allocated for Cyclical Improvement Works giving a total allocation of £5.961m not currently committed to other schemes. The LB Islington co-funding requirement of £4.340m can be met from these allocations.
- 4.1.5 The Council is also required to underwrite the £0.174m in contributions from Leaseholders and Freeholders should these be refused or withheld. There is sufficient budget available within the capital allocation to cover this cost in the unlikely event that it proves necessary to do so.

4.2 Legal Implications:

- 4.2.1 This report seeks authority to enter into a grant agreement with BEIS for the Social Housing Decarbonisation Fund on the basis of the bid submitted in November 2022. Announcement of successful bids will take place at the end of February/beginning of March 2023 and the council will need to be in a position to enter into the Grant Agreement within a month of that announcement.
- 4.2.2 The council has the power to make the bid and enter into the Grant Agreement referred to in this report under the general power of competence contained in Section 1 of the Localism Act 2011 and under Section 1 of the Local Government (Contracts) Act 1997.
- 4.2.3 Legal Services provided legal advice to officers by email dated 4th November 2022 on the terms of the Social Housing Decarbonisation Fund (SHDF) Wave 2 Grant Agreement which will govern any grant made to the council resulting from a successful bid.
- 4.2.4 The council's bid is subject to council co-funding as set out at paragraph 4.1.4 of this report.
- 4.2.5 Part 6 (Financial Regulations) of the council's Constitution provides as follows:

EXTERNAL FUNDING

5.9 When seeking or bidding for external funding, including grants, Corporate Directors must ensure that the objectives of the funding programme are consistent with the Council's objectives and priorities.

5.10 Corporate Directors must also ensure that the receipt of any external funding does not lead to a resource commitment in future years that does not have a sustainable funding source. The Chief Finance Officer must be advised of any such arrangements prior to entering into the same. When applicable Corporate Directors must ensure that the Council's recordable decisions policy is complied with.

5.11 Corporate Directors responsible for expenditure funded wholly or partly by central government and or other external bodies/partners must ensure that:

- i. all funding notified by external bodies is received and properly recorded in their accounts;
- ii. the match funding requirements are considered prior to entering into agreement and that future revenue budgets reflect these requirements;
- iii. service output targets/requirements can be met and that adequate arrangements are put in place for their monitoring and reporting;
- iv. any audit requirements are met;
- v. any other conditions associated with the funding are achievable and complied with.

- 4.2.6 Any contracts for works procured or used by the council using funds from the Social Housing

Decarbonisation Fund (SHDF) Wave 2 must be procured or used in a way which complies with the Public Contracts Regulations 2015 and the council's Procurement Rules.

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 the properties included in the scheme. In addition to this the project will also help mitigate fuel poverty and assist residents to save money on fuel bills during the cost of living crisis:

- Annual Energy savings across the scheme – 866536 kWh
- Annual CO₂ savings across the scheme – 225 tonnes
- Annual Energy Bill savings across the scheme £112,284

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.

Please see the guidance on Izzi (<http://izzi/me/staff-essentials/reports-for-committees/Pages/default.aspx>) regarding environmental implications and once you have drafted your paragraph, forward it to the Energy Services team at **energyservices@islington.gov.uk** allowing 8 days for clearance.

4.4 Equality 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 recommendation

- 5.1 The council has constructed a bid for the Social Housing Decarbonisation Fund based on our existing programmes of works to street properties and estates (which is based on their more immediate need for investment) to enable the council to submit a reliable bid, with demonstrable ability to delivery and clear pricing and contract confidence. The bid meets the requirements of the bidding process for this wave of the SHDF and having completed the PAS 2035 initial survey process in advance, should put the council in a good position to both be successful in our bid and in delivering the required works, if the bid is successful. CMB are asked to confirm the availability of

funding for the measures outlined in the bid, as part of the council's housing capital programme for 2023/24 and 2024/25. This report seeks authority to enter into a grant agreement with BEIS for the Social Housing Decarbonisation Fund on the basis of the bid submitted in November 2023. Announcement of successful bids will take place at the end of February/beginning of March and the council will need to be in a position to enter into the Grant Agreement within a month of that announcement.

Appendices

- None

Background papers: None

Final report clearance:

**Approved
by:**

Cllr Una O'Halloran

Executive Member for Homes and
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