

Report to Cabinet

7 June 2023

Subject:	Social Housing Decarbonisation Fund – Wave 2.1 Funding
Cabinet Member:	Cabinet Member for Housing and Built Communities, Councillor Rollins
Director:	Director of Housing Gillian Douglas
Key Decision:	Yes
Contact Officers:	Sarah Ager, Assistant Director – Asset Management and Improvement sarah_ager@sandwell.gov.uk Jonathan Rawlins, Business Manager - Asset Management and Improvement jonathan_rawlins@sandwell.gov.uk

1 Recommendations

- 1.1 That approval be given to authorise acceptance of a maximum of £5.5m grant funding, from the Government’s Department for Energy Security & Net Zero (DESNZ) to fund proposed energy-efficiency improvements to council-owned dwellings in Sandwell.



- 1.2 That the Director of Law and Governance and Monitoring Officer be authorised to enter into a grant funding agreement with DESNZ, subject to a satisfactory financial appraisal being completed by the Strategic Finance.
- 1.3 That subject to 1.1 and 1.2 above, the Director of Finance be authorised to allocate the sum in the order of £16m from the Housing Revenue Account (HRA), to both match-fund and supplement proposed energy-efficiency improvements to council-owned dwellings in Sandwell.
- 1.4 That the Director of Housing be authorised to instruct the Council's External Improvement Programme construction partners once appointed (currently being procured), to deliver associated energy improvement works in accordance with the contractual arrangements.
- 1.5 That the Director of Housing be authorised to instruct agencies procured via the West Midlands Combined Authority (WMCA) to carry out specialist duties, on behalf of Sandwell MBC, in relation to the Social Housing Decarbonisation Fund.

2 Reasons for Recommendations

- 2.1 The purpose of this report is to authorise the acceptance of grant funding of up to £5.5m to fund proposed energy-efficiency improvements to assist in addressing fuel poverty in council-owned dwellings in Sandwell and to seek approval to match-fund and supplement the works from the Housing Revenue account (HRA) in the order of £16m, to achieve an EPC C to the identified properties.
- 2.2 To seek approval for the Director of Housing to instruct the Council's External Improvement construction partners (currently being procured) to deliver energy improvement works in accordance with the tendered contractual arrangements.



- 2.3 To seek authorisation for the Director of Housing to instruct agencies procured via the Combined Authority to carry out duties to ensure compliance with funding criteria, on behalf of Sandwell MBC, in relation to the Social Housing Decarbonisation Fund.
- 2.4 This initiative clearly supports the current drive towards a greener, low-carbon economy and a need to address Climate Change priorities. It will also help to address high levels of fuel poverty in the Sandwell area.
- 2.5 Acceptance of the proposals contained within this report, will have the following effect:
- A reduction in fuel poverty levels
 - Improved living conditions for tenants in Council homes
 - Improved EPC ratings for the properties concerned
 - Promote the Council's reputation as being serious about climate change and the move towards a carbon-neutral economy.

3 How does this deliver objectives of the Corporate Plan?

	<p>Quality homes in thriving neighbourhoods, this investment is required to allow Sandwell MBC to improve the thermal efficiency, decency and appearance of the housing stock.</p> <p><i>Ambition 2</i> - Sandwell is a place where we live healthy lives and live them for longer, and where those of us who are vulnerable feel respected and cared for. Improved energy-efficiency of homes should reduce energy bills and help to address fuel poverty, allowing vulnerable residents to enjoy more comfortable lives.</p> <p><i>Ambition 10</i> – Sandwell now has a reputation for getting things done, where all local partners are focussed on what really matters in people's lives and communities. This initiative will demonstrate Sandwell as a forward-thinking authority that has successfully bid for government funding aimed at</p>
---	---



reducing tenants' energy bills and carbon emissions and is committed to reducing our climate change impact.

4 Context and Key Issues

4.1 Background

4.1.1 During 2019 the Government committed to a £3.8bn Social Housing Decarbonisation Fund (SHDF) over a 10-year period to improve the energy performance of social rented homes, on the pathway to Net Zero 2050. The SHDF aims to deliver warm, energy-efficient homes, reduce carbon emissions and fuel bills, tackle fuel poverty, and support green jobs.

4.1.2 Building on the previous successful wave of SHDF Wave 1, Sandwell MBC were a named partner in a SHDF Wave 2.1 bid submitted to government as part of the consortium headed up by the West Midlands Combined Authority (WMCA). Other participating members of the Consortium are Community Housing Group, Midland Heart, Orbit Housing Group, Solihull Community Housing, St Basil's, Nehemiah Housing Association, Dudley MBC, Cannock Chase DC, Bromford Housing Group, Witton Lodge CIC, Make it Sustainable, The Elizabeth Dowells Almshouse Trust, St Johns Church and Balsall Heath Housing Cooperative.

4.1.3 Wave 2.1 aims to improve the energy performance of homes to Energy Performance Certificate (EPC) Band C, wherever possible, to take households out of fuel poverty and deliver progress towards the UK's commitment to Net Zero by 2050. This is the second wave (out of a total of four waves, subject to future spending review agreement) of the SHDF programme.

4.1.4 Lessons learned from both the SHDF Demonstrator and SHDF Wave 1 have been incorporated in the design of SHDF Wave 2.1. The key aims and objectives for the SHDF Wave 2.1 are set out below:

- Fuel Poverty: Reduce the numbers in Fuel Poverty by improving the energy efficiency rating of social homes below EPC Band C and reducing energy bills. On this basis, tenant



energy bills should not increase for equivalent home warmth, and it is expected that bills will reduce.

- Carbon: Deliver cost effective carbon savings to contribute to carbon budgets, and progress towards the UK's target for Net Zero by 2050 by reducing CO2 emissions from Social Housing.
- Green Economy: Support economic resilience and a green recovery in response to the economic impacts of Covid-19, supporting thousands of jobs.
- Tenants: Improve the comfort, health, and well-being of Social Housing tenants by delivering warmer and more energy-efficient homes.
- Develop the Retrofit Sector: Create the conditions for growth in the retrofit supply chain capacity and capabilities, boosting productivity and innovation in the construction sector. Additionally, upskilling social landlords in retrofit to support future improvements to energy efficiency in the social housing sector.

4.1.5 WMCA appointed a consultant to coordinate the bid. Each authority was asked to identify properties that met the set criteria. The cost of investment is based upon the range of measures and type of property identified.

4.1.6 The grant provides funding of up to 50% of total eligible project costs to assist in the delivery of the project, with the Council contributing a minimum of 50% of total eligible project costs. The value of the grant is dependent on the rating on the property, with cost caps implemented on each home. One of the key principles of the fund is 'worst first', so those homes with the poorest EPC rating attract a higher cap than those homes that have a better rating. Cost caps are also applied to wall type, to allow more grant funding for harder to retrofit properties with solid walls, compared to the cheaper easier solution for cavity walls.



- 4.1.7 The property data that has been used for the bid gives an indication of the EPC for the identified properties, however upon acceptance of the bid a full retrofit assessment will be carried out which will validate the rating and in turn confirm the cost cap and the associated HRA contribution.
- 4.1.8 The cost of investment was established using prices for each measure available at the time of submission and this is subject to change. The indicative values provided in the bid were to invest in 625 properties, attracting a grant of £5.5m with the HRA contribution of £15.3m which is a 26% grant contribution to the overall delivery.
- 4.1.9 The total number of properties included within the consortium's bid is 2,076, of which Sandwell is the main contributor with a provisional number of 625 properties. The principal measure proposed by all members, including Sandwell MBC, is external wall insulation (EWI).
- 4.1.10 The HRA 30 Year Business Plan, approved by Cabinet on 15 February 2023, confirmed the Council's ambition to ensure our properties are energy efficient and to support the journey to net zero carbon. All council stock must be at Energy Performance Certificate (EPC) level C or above by 2030. Under the council's Climate Change Strategy our housing stock should also achieve net zero carbon by 2041. Meeting these targets requires significant investment in the stock and this is reflected in the 30 Year Plan. However, to achieve net zero carbon we will require external funding as well as use of HRA.
- 4.1.11 Appendix 1 provides an overall project cost breakdown for the Combined Authority consortium bid, including the Sandwell element.
- 4.1.12 If the Council's ambitious climate change target to achieve carbon neutrality by 2041 is to be met, this type of intervention is necessary. This project will also help families who may be suffering from fuel poverty as they are currently living in some of the least energy-efficient houses in the Council's stock.



4.1.13 Measures will be incorporated into an ongoing external improvement programme and can help demonstrate a firm commitment towards achieving carbon reduction targets and climate change initiatives.

4.2 The Current Position

4.2.1 The bid was submitted on 18 November 2022, with a right reserved to withdraw from the project before entering into a more formal agreement once the decision to award funding had been made by Government.

4.2.2 Sandwell MBC's element of the bid includes delivering external wall insulation, improved flat roof insulation (including roof replacement) and cavity wall insulation to up to Council-owned dwellings that have been identified across various estates within the six towns of Sandwell.

4.2.3 On 20 March 2023, WMCA received notification from the Department for Energy Security and Net Zero that our bid had been successful.

4.2.4 As the project value exceeds £100,000 and an application for external funding is being made, the bid is currently in the process of being financially appraised by Strategic Finance.

4.2.5 Officers are currently procuring contractors to deliver external improvement works, approved by Cabinet on 18 May 2022. Once appointed, these contractors will be the nominated installers to deliver the works detailed within this report. All eligible installers are required to be Trust Mark Registered or equivalent and all works must be compliant with PAS 2035:2019 Retrofitting dwellings for improved energy efficiency; Specification and guidance. It will be a condition precedent to the award of these contracts that contractors comply with these requirements.

4.2.6 As the procurement process is yet to be concluded and an award made, the true cost to deliver these works is currently unknown. The bid was based on the historical costs, and the costs are increasing throughout the industry, it is likely that the overall cost to deliver the required measures to the identified properties will be significantly higher than the £20.7m total project cost.



The grant, however, of c.£5.5m will remain static, resulting in the requirement for any additional costs to be met from the HRA, or as an alternative a reduction in the number of properties could be considered. This will be monitored in conjunction with WMCA to maximise any additional grant that may be available within the consortium.

4.2.7 The external improvement works contract is due to mobilise in July 2023 for a four-year period with a value of £20m per annum. The current predicted HRA contribution of £16m will be spread over two financial years, with an approximate value of £8m per annum, leaving sufficient head room to carry this work alongside other external improvement works.

4.2.8 The delivery window for SHDF Wave 2.1 will run between March 2023 to 30 September 2025.

5 Alternative Options

5.1 The Council could do nothing, not accept the grant and not invest in the properties to improve the energy efficiency. This is not considered a suitable option as the Council is committed to improving the energy efficiency to EPC C or above of all council housing stock by 2030.

5.2 Should the Council decline this offer and still wish to continue with the projects, then alternative arrangements would need to be made to fund an extra £5,403,519 in addition to a proposed commitment of £15,323,935. This option is ruled out because it is important that we draw down funding for retrofitting. It is highly likely that all registered providers of social housing, including local authorities, will need access to grant funding in order to meet the ambitious climate change targets in housing.

5.3 An alternative option could be to complete similar works to the same addresses without SHDF Wave 2.1 grant funding. This would remove the requirement to comply with PAS 2035:2019 which could potentially reduce costs by up to 30% (demonstrated by the increase in costs experienced during delivery of SHDF Wave 1) and allow the Council to have more flexibility in terms of control over the method and timescale for delivery. This option has been ruled out because it is important that we draw down



funding for retrofitting. If the Council wishes to access Government funding for retrofit works now and in the foreseeable future, compliance with PAS 2035 with associated increased costs is likely to be the norm.

6 Implications

Resources:	The HRA 30 Year Business Plan, which was approved by Cabinet on 15 February 2023 included, Capital investment for Refurbishment and ECO projects to improve the energy efficiency of properties in Sandwell. At this stage the proposed match funding contribution figure of £15.3m will be allocated from this budget and it is anticipated that all match funding will be expended during 2023/2024, 2024/25.
Legal and Governance:	<p>The project would be awarded and delivered via the current External Improvement Programme contract which are currently being procured, approved at the Cabinet meeting of 18th May 2022 (minute 105/22 refers)</p> <p>The contract is being procured and will be awarded in accordance with the council’s Procurement and Contract Procedure Rules and the Public Contracts Regulations 2015.</p> <p>The project will be overseen and monitored by the SHDF Steering Group led by Sarah Ager, Assistant Director Asset Management and Improvement.</p>
Risk:	<p>A risk register has been compiled and will be reviewed and updated on a regular basis by the SHDF Steering Group. Arrangements are in place to effectively manage and mitigate the risks identified. Major risks are identified below:</p> <ul style="list-style-type: none"> • Project deemed unviable following assessment by Strategic Investment Unit owing to additional



	<p>costs predominantly caused by compliance with PAS2035:2019</p> <ul style="list-style-type: none"> • Inability to spend any funding awarded
Equality:	An Equality Impact Assessment screening exercise has been carried out and a full Equality Impact Assessment is not required.
Health and Wellbeing:	<p>Accepting SHDF funding and completion of the proposed insulation works should result in the following benefits to the households concerned:</p> <ul style="list-style-type: none"> • Better insulation will help residents to save energy and money on fuel bills or able the residents to heat their home effectively with the money available to them • Improved living conditions could help to ease the pressure on the NHS by reducing hospital admissions • Use of the grant to support the associated work, will reduce carbon emissions with associated benefits through reducing the impacts of climate change
Social Value	<p>Social Value will be achieved through the inclusion of an Employment and Skills Plan (ESP) contained within the formal contracts with the successful contractors. The plan will include contractual performance indicators such as work experience placements, apprenticeships in addition to school engagement and community activities.</p> <p>The proposals contained in this report are entirely commensurate with the Council's climate change priorities and will help to support:</p> <ul style="list-style-type: none"> • Reduced carbon and greenhouse gas emissions • A reduction in fuel poverty • Improved health and wellbeing



	<ul style="list-style-type: none"> Inclusive economic growth – reduced fuel bills should allow more money to be spent locally.
Climate Change:	All council stock must be at Energy Performance Certificate (EPC) level C or above by 2030. Under the council’s Climate Change Strategy our housing stock should also achieve net zero carbon by 2041. Meeting these targets requires significant investment in the stock and this is reflected in the Plan. However, to achieve net zero carbon we will require external funding as well as use of HRA.
Corporate Parenting:	The proposals will support residents, including children and young people.

7. Appendices

Appendix 1 - Project cost breakdown

8. Background Papers

Report to Cabinet 15 February 2023, Housing Revenue Account 30 Year Business Plan (minute 17/23)

Report to Cabinet 18 May 2022, Asset Management and Maintenance Investment Programme 2022-23 (minute 105/22)



Appendix 1

Project Cost Breakdown

	Project Cost Breakdown				
	Total Project Costs	Total SHDF Grant Funding requested - Capital	Total RP Contribution - Capital	Total Grant Funding requested - A & A ¹	Total RP Contribution - A & A
WMCA Consortium Wave 2.1 Bid Submission	£ 52,180,793.00	£ 14,280,714.00	£ 30,907,677.00	£ 3,496,201.00	£ 3,496,201.00
Sandwell MBC element of Bid	£ 20,727,454.00	£ 4,558,000.00	£ 14,132,905.00	£ 845,519.00	£ 1,191,030.00
<i>All costs are inc. non-recoverable VAT</i>					

¹ A & A = Admin and ancillary costs, which include: -

- Consortium Manager
- Bid Manager Handover
- WMCA technical lead/ PAS 2035 compliance
- Retrofit assessor coordinator x 2
- Consortium Admin Support
- Consortium coordination
- Procurement support
- Customer journey support and tenant advice
- WMCA Corporate Services Recharge @ 2%
- Project Management (RPs)
- PAS 2035 Retrofit Assessment, Evaluation
- Co-ordination & Design
- Decant & Storage Costs
- EPCs
- Trustmark or equivalent lodgement fees
- Planning & Consent/Building Control fees

