

## **Executive**

Report of the Director of Housing, Economy and Regeneration

Portfolio of the Executive Member of Housing and Safer Neighbourhoods

### **Housing Energy Efficiency Programme Update – Utilising Grant Funding to Deliver Additional Retrofit Works**

#### **Summary**

1. This report provides an update on works to reduce carbon emissions within the housing sector in York and the sub-region. This follows on from the launch of this programme through Executive approval in December 2020 and a number of successful grant applications throughout 2021. These retrofit works and funding opportunities are being delivered alongside the development of a housing energy efficiency strategy, which will build on the Climate Change Strategy, by developing a number of initiatives to support the city's ambition of being carbon neutral by 2030. This report provides an update on projects which are currently underway, delivering energy efficiency improvements across all housing tenures. The report then presents opportunities for utilising additional grant funding to deliver further retrofit works in order to reduce carbon emissions, reduce fuel poverty and increase the warmth, comfort and health of our homes.
2. In summary, through the Housing Energy Efficiency Programme, the council has:
  - a) Earlier this year been successful in securing £2,659m of grant funding under the first two rounds of the government's Local Authority Delivery (LAD) programme. In February, we secured £535k under the LAD 1B funding round for works in the private rented and homeowner sectors. In July, we secured £2,124k under the LAD 2 funding round for works in the private rented, homeowner and social housing sectors. Both funding rounds have challenging timescales of delivery by March 2022. This funding will deliver improvements to the energy efficiency of over 400 homes in York and the sub-region.

- b) Submitted a further successful application for funding of £2,380k under the LAD 3 round of funding. The focus of this round of LAD funding is for private rented and homeowner homes. This brings the amount of grant funding achieved so far this year to £5,039k.
- c) Submitted a further grant application under the Social Housing Decarbonisation Fund (SHDF). As the title suggests, this funding is for retrofit works within social housing. The outcome of this application will be known by the end of December 2021. The application was for £280k of central government funding and would require match funding investment of £353k from the Housing Revenue Account. The combined investment would support the retrofit of 28 of our least energy efficient council homes.
- d) Engaged in significant best practice research, data gathering and analysis, and stakeholder engagement to begin the drafting of a Housing Energy Efficiency Strategy which will support a strategic approach to reducing carbon emissions, reducing incidents of fuel poverty, and improving the health of housing across all tenures in the city. This will link with other emerging strategies around climate change, economy and skills and will be brought before Executive for consideration in spring 2022.
- e) Been invited to be member of the UN International Centre of Excellence on High Performing Buildings programme, in recognition of our work on reducing carbon emissions in the housing sector through the zero carbon ambitions of the Housing Delivery Programme as well as our retrofit ambitions.

## **Recommendations**

3. The Executive are asked to note and approve the following recommendations:
  - i. Note the progress in securing funding under the LAD1B and LAD 2 rounds of the programme, including the challenges and risks associated with delivering works utilising short term funding and the progress in drafting an energy efficiency strategy document.
  - ii. Note the offer of additional grant funding of £2,380k under the LAD 3 funding round.
  - iii. Note the submission of a grant application for £280k under the Social Housing Decarbonisation Fund, and if successful, to delegate acceptance of this grant offer to the Director of Housing, Economy

and Regeneration in consultation with the Executive Member for Housing and Safer Neighbourhoods.

- iv. Approve the use of £353k of the approved £2m HRA Energy Efficiency Capital Programme budget, to match fund the Social Housing Decarbonisation Fund grant (if successful), to deliver retrofit works to around 28 of the least energy efficient council houses. Note the use of £440k of HRA investment to match fund LAD 2 grant funding to deliver solar PV installations on up to 50 council homes.
- v. To approve the procurement of a new retrofit delivery partner to undertake improvement works in accordance with the grant offers under the LAD3 and Social Housing Decarbonisation Fund (if successful). Delegate authority to the Corporate Director of Place (in consultation with the Director of Governance and S151 Officer) to take such steps as are necessary to procure, award and enter into the resulting final contract(s).
- vi. To agree to enter into a Memorandum of Understanding (MoU) with the United Nations to support York becoming an International Centre of Excellence on High Performance Buildings.

**Reason:** In order to tackle fuel poverty and to meet the ambition of York being carbon neutral by 2030, to both reduce energy demand through building fabric upgrades as well as switching to low carbon/renewable forms of heating and energy generation across all tenures.

## **Background**

4. In 2019, the City of York Council declared a Climate Emergency and set an ambition for York to be a carbon neutral city by 2030. Domestic homes are the single largest carbon producing sector locally, accounting for an estimated 31.8% of total emissions.
5. Energy inefficient housing not only increases carbon emissions, but it can also reduce the health of a home. Poorly insulated homes will be colder and are more likely to have issues of damp and mould. By better insulating our homes they become both healthier and more affordable to heat, helping to reduce incidences of fuel poverty.
6. The government recognises the significant challenge of improving the energy efficiency of homes across the country. As part of a wider funding package, the government announced £500m of funding known

as the Local Authority Delivery (LAD) scheme. This funding is allocated to Local Authorities on a competitive basis in order to improve the energy efficiency of homes. So far there have been three rounds of LAD funding. Round 1 and 3 are primarily aimed at home owners and the privately rented sector, whilst LAD round 2 allowed for some spend on social housing. The funding is allocated to successful local authorities who then identify willing and eligible households and use their procured supply chains to deliver the works. The primary funding criteria is low income households who live in a home which is rated D or below against the Energy Performance Certificate (EPC) rating. The funding seeks to phase out high carbon fossil fuel heating and deliver progress towards the UK's commitment to net zero carbon by 2050. The funding within the programme isn't sufficient to undertake a full house retrofit where a house is improved to zero carbon or similar standard. However, the programme adopts a "no regrets principle". This principle supports steps towards zero carbon by undertaking designed works in an appropriate order by focussing first on the installation of insulation measures before delivering technological solutions such solar PV or air source heat pumps.

7. To date the council has been successful in securing three sets of LAD funding:

- LAD 1B – funding of £535K
- LAD 2 – funding of £2,124k
- LAD 3 – funding of £2,380k

This is a really significant investment in retrofit works in York and the sub-region. This level of grant funding is around three times the average per capita award across the country. This highlights both our ambition and the growing skillset within the council to access and utilise these grant funding opportunities. The grants provide an opportunity to utilise revenue funding to build the internal capacity needed to deliver the projects. As a result we have appointed a Home Energy Project Manager and two support staff. This resource has been utilised to promote the opportunities for retrofit works in York and across the sub-region as well as project managing the contract with the funding bodies and works contractors. Physical works have been completed on a number of homes, including adding cavity wall insulation and improving the energy efficiency of rooms in the roof. The opportunity for retrofit works has been widely promoted and over 200 people have expressed an interest and are being assessed to make sure they meet the income criteria and that their home meets the low energy efficiency thresholds to qualify for grant funding.

8. In December 2020 Executive approved the use of £1m to invest in the retrofit of approximately 60 council homes whilst a long term strategy was developed to guide longer term and additional investment. This £1m was allocated from the £2m HRA Energy Efficiency Capital Programme budget. Very quickly after the Executive approval, grant funding opportunities became available which have utilised staffing resources as well as reprioritising investment decisions in order to maximise the use of external funding which has become available. The scale of the financial challenge in retrofitting poorly performing council homes is enormous and requires the utilisation of external sources of funding where available. In March, the Executive Member of Housing and Safer Neighbourhoods, approved the submission of the successful LAD 2 funding application which included £250K for the installation of Solar PV on up to 50 council homes. These installations require £440k of HRA investment alongside the grant funding. This work will be undertaken utilising the existing Better Homes contract following consideration of value for money via an independent organisation.
9. Whilst progress is good in delivering retrofit works utilising grant funding, and in many cases we are much more advanced than our peers, it should be noted that there have been a number of challenges. These challenges place a significant risk of not being able to fully utilise all of the grant funding within the current deadline of the end of March 2022. The key challenges are:
  - Supply chain capacity and local skills development - lack of sufficient skilled workers and building materials due to competing programmes across the country.
  - Implementation of new industry standards – a lack of technical understanding by the supply chain has further reduced capacity and added time and complexity to each retrofit project.
  - Increases in material costs driving up the overall cost of retrofit works in the short term.
  - Customer engagement – reaching enough people who both meet the strict qualifying criteria and want to commit to the works within a short timescale and at a time of the covid pandemic.
10. Many of these challenges will be addressed in the medium to long term as we develop our Housing Energy Efficiency Strategy and extend our delivery programmes in order to develop and support a more robust supply chain. Creating successful case studies to share with people will also be a valuable tool in demonstrating the advantages of undertaking these works on your own home.

## **Local Authority Delivery Round 3 (LAD3)**

11. Recently the City of York Council led a consortium bid under the LAD3 round of funding, the consortium included Harrogate, Craven and Selby. The focus of the bid is to extend existing retrofit works under LAD 1b and 2 funding rounds by taking a “no regrets”, fabric first approach where possible to improving the energy efficiency of homes. This programme will fund retrofit works undertaken between January 2022 and March 2023 providing a longer delivery window than under either LAD1b or LAD2.
12. LAD3 funding is primarily aimed at private rented sector landlords and home owners. We have been successful in receiving a grant offer of £2,380k under the LAD3 funding round which supports retrofit works for low-income households which are heated by mains gas.
13. The LAD 3 funding will predominately be utilised for improving the energy efficiency of houses within York. Using modelled data we are proposing to undertake works to approximately 200 fuel poor households. These works are likely to include fabric improvements such as top-up loft insulation, external wall insulation, underfloor insulation as well as renewable technology installations consisting of solar photovoltaic (PV) panels and hybrid air source heat pumps (ASHPs). A Hybrid ASHP uses a gas boiler to top-up the warm water supplied by the ASHP.
14. The works in York will target wards where there are the largest numbers of qualifying households. Qualifying households need to be on low incomes and the house needs to have a low EPC rating (typically D or below). The highest concentration of these households are within wards closest to the city centre, such as Clifton, Micklegate, Fishergate, Guildhall and Holgate. It is important from a delivery and cost efficiency perspective that specific geographical locations are targeted, as spreading works throughout the city would not be an acceptable approach for any supply chain partner. After these wards are targeted, promotion of this opportunity can be extended further out into the city should there be grant funding remaining. We will also take advice from our procured delivery partner regarding key areas and streets to target to ensure that we achieve best value. As some of the works will be external wall insulation, which typically requires planning permission, we will also need to be mindful of conservation and heritage considerations as well as the need to target streets where a number of works can be carried out at the same time in order to ensure efficient delivery of the programme.

15. We are a signed up member of the Better Homes Yorkshire (BHY) contract which was established to physically deliver energy efficiency works within the social housing sector. However, the procured BHY delivery partner has confirmed that they have no spare capacity to undertake retrofit works as part of LAD3 or SHDF works. The grant applications were therefore submitted in the expectation that a new delivery partner would need to be procured if we were successful. This will require amending the BHY agreement alongside entering a contract with a new delivery partner for these works. Advice from Legal and Procurement has been taken in this regard and we are confident that this can be achieved.

### **Social Housing Decarbonisation Fund**

16. The Council expect to be notified in December 2021 whether it has been successful in its application for £280k of funding to support the retrofit of council homes. This funding would go towards the retrofit of some of our poorest performing homes, some of which are more difficult to treat than homes with a more standard construction method. A number of potential homes have been identified which meet this criteria but further consultation with residents is required should we be successful in our grant application. The works are likely to consist of external wall insulation and some underfloor insulation. This will wrap the houses in insulation such that they retain heat much more effectively. As well as reducing carbon emissions this work will increase the thermal comfort of the home and is likely to reduce energy bills for many residents.
17. The total cost of the identified works is estimated to be £633k, meaning the HRA would be required to invest the remaining £353k. The HRA investment would be an average of £12.6k per home to enable works to the value of £22.6k. In December 2020, Executive approved the use of £1m of HRA investment to retrofit council homes. By utilising grant funding under LAD 2 and SHDF we are able to deliver retrofit works to approximately 28 homes and install solar PV on a further 50 homes utilising HRA investment of just £793k. By utilising this funding we will be able to improve the energy efficiency or install renewable energy generation to a total of 78 homes whilst retaining £1,207k within the HRA Energy Efficiency Capital Programme for further investment allocation once the energy efficiency strategy is developed and to further cross fund the next round of grant opportunities.

18. As described in the previous section, the delivery of these upgrades work would require the procurement of a supply chain partner for insulation works for the 28 homes. An existing supply chain partner will deliver the installation of solar PV to 50 council homes.

### **Housing Energy Efficiency Strategy**

19. Our success in attracting government funding has kick started investment in retrofit works across York. This will have a positive impact on the supply chain, who will be incentivised to invest in skills and resources in order to be able to deliver the works. However, short term investment alone will not be sufficient to support the required upskilling of large numbers of tradespeople. A long term strategy for both direct investment within our own council housing stock as well as facilitating retrofit works within other sectors is vital to support the shift towards skills in low carbon systems and technologies. This shift is a key theme within the emerging Economic Strategy.
20. As such, alongside utilising government grant to invest over £5m in retrofit works now, we are developing a longer term strategy for the city. This will have a key thrust around steps to improve the energy efficiency of council houses without compromising our work in repairing and maintaining the homes. The strategy will set out an approach which will support investment as a long term approach whereby it is embedded into business as usual alongside taking advantage of further grant funding opportunities. The strategy will provide data highlighting the level of retrofit challenge across all sectors and will use modelled information to highlight key interventions which are most suitable across different parts of the city. The strategy will outline the role of the council in facilitating and supporting those who are 'able to pay'. The strategy will build on the high level aspirations within the emerging Climate Change Strategy and highlight a series of actions which will support our ambition to significantly reduce carbon emissions within the residential sector in York.

### **Becoming a United Nations International Centre of Excellence on High Performing Buildings**

21. The Housing team have undertaken significant research and outreach to inform the zero carbon ambitions of both our retrofit programme and the Housing Delivery Programme. This work has sought to identify good practice being developed nationally and internationally to help further our ambitions to create sustainable high



quality housing and to renovate existing stock to become more energy efficient.

22. The work we are doing has been recognised as innovative and ambitious by independent organisations such as Friends of the Earth and the Local Government Association who have used the Housing Delivery Programme as an exemplar of best practice case study in their emerging guides which will be used to support other council's and organisations in delivering new low carbon neighbourhoods.
23. Following the promotion of the work undertaken by the council, we have been invited by the United Nations Economic Commission for Europe (UNECE) to become an International Centre of Excellence on High Performing Buildings. This initiative is designed to promote good practice in zero carbon construction thereby accelerating the delivery of sustainable solutions around the world.
24. By being a centre of excellence within this programme, York would be part of a network of leading organisations in delivering high performance buildings. Centres can provide education, training, or demonstrate best practice through projects. Members are expected to share information globally through collaboration with other network participants. Members of the initiative commit to supporting the advancement of the rapid transition to high performance buildings, locally and around the world, in support of the UN Sustainable Development Goals and Paris Climate Accord, while fostering a thriving building industry that creates healthy, comfortable, and sustainable buildings everywhere for everyone. The mission of the UNECE centre of excellence work can be found here [Learn More — \(uncentresofexcellence.com\)](https://uncentresofexcellence.com).
25. At the COP 26 climate change summit in Glasgow, Eight International Centres of Excellence of High Performance Buildings were unveiled to become part of the collaborative network of organisations across the globe. The focus is on supporting their local industry in the rapid development of next generation buildings consistent with UN Framework guidelines for energy efficiency standards in buildings. City of York Council will be the first local authority in the UK to be a member of this consortium, leading the way on the delivery of zero carbon housing. Executive are asked to formally agree to sign a Memorandum of Understanding (MoU) with UNECE setting out our joint commitment to promoting sustainable development. This is attached at Annex 1.

## **Resources**

26. A post to lead the Home Energy Efficiency programme has now been created, providing expertise and project management for two years to support teams across housing services. In addition the LAD funding streams include an allowance to increase staffing capacity. Additional posts have been created to support the delivery of these projects.

### **Consultation**

27. In the production of this report further consultation has been undertaken with our consortium partners Harrogate, Selby and Craven Councils. The retrofit strategy development includes extensive consultation with stakeholders, including at Housing and Community Safety Scrutiny in October.

### **Council Plan**

28. Undertaking energy efficiency retrofit projects aligns with a number of the key objectives within The Council Plan:

**Well-paid jobs and an inclusive economy** – retrofit of existing homes requires a skilled workforce and is labour intensive by the nature of the work involved. People working in the construction industry are typically paid above the national average. Utilising central government grant funding alongside HRA capital to deliver works creates opportunities for work with the supply chain to create opportunities for further training and skills development locally.

**A greener and cleaner city** – our housing stock is a major source of carbon emissions. Retrofit improves the thermal performance of existing dwellings, reduces heating demand and thus reduces the amount of gas/electricity required to heat a dwelling.

**Good health and wellbeing** – Exposure of residents to excess cold exacerbates a range of health conditions and contributes to increased hospital admissions during the winter months. The elderly are particularly at risk from excess cold. Retrofit projects will make tangible improvements to the energy performance of dwellings thereby reducing incidents of excess cold and associated ill health.

## Implications

**Financial** - The LAD3 grant is for properties in the private sector and will be awarded upfront rather than on a claim basis. Administration and ancillary costs can be claimed by CYC and the contractor up to a maximum combined value of 15% of the grant. CYC internal resources costs are to be contained within this value.

Expenditure relating to social rented properties for the Social Housing Decarbonisation Fund, will be contained within the £2m HRA Energy Efficiency capital programme budget.

**Human Resources (HR)** – A small team led by the Home Energy Efficiency Programme Manager is now leading on the cross-tenure retrofit programme supported by two Home Energy Project managers. The two LAD investment programmes have enabled the recruitment of additional staff on short fixed term contracts. Should we be successful with our procurement these will be extended until March 2023.

**Equalities** – An equalities impact assessment was completed when this programme was launched and approved by Executive in December 2020. There is no adverse impact expected in terms of equalities.

**Legal** – The timescales to implement the work required once grants have been confirmed is tight and so the use of existing procurement frameworks to expedite the process and ensure compliance is advised. Research has been undertaken to make sure these are available and appropriate. Such a process will also help the Council comply with the subsidy control mechanism (which replaces the State Aid regulations) by not giving an advantage to one economic operator over another.

Arrangements will need to be put in place to protect the Council as lead authority from any breach of grant conditions by the other partner local authorities who will receive part of the funding from us to use for the same purposes. Back to Back Agreements with CYC will bind these authorities into the same conditions.

In respect of the UNECE memorandum of understanding (MoU), the document sets out the principles of collaboration/co-operation between the UNECE and CYC for this project.

The MoU is drafted as a non-legally binding document, which is typical for informal collaborations in public sector. Even if it is non-binding, this may give rise to fiduciary/moral obligations, which can be enforceable in

other legal jurisdictions overseas (particularly in continental Europe, but also in the USA).

Most of the clauses in the MOU are drafted on a mutual basis, and there are no administrative or financial burdens for either party i.e. each party will be individually liable for their own costs arising out of this MoU.

The MOU is for 3 years from signature, and can be terminated at any time on 60 days' written notice.

**Procurement** – Any proposed works and services will need to be commissioned via a compliant Procurement route under the Council's Contract Procedure Rules and the Public Contract Regulations 2015. Although the value of the works falls under the relevant threshold (£4,733,252), a full procurement exercise under the Regulations will be required in this instance. As such, 3 formal routes have been identified which will allow the council to complete said works compliantly.

Whilst the timescales for the required work and services are extremely tight following the councils successful bid application, work has begun to research the most suitable procurement route. To date, there are 3 main routes which the authority could take. The 3 routes consist of 2 Frameworks via Fusion21 and Consortium Procurement and 1 DPS (Dynamic Purchasing System) via Procure-Plus. It is understood other councils have accessed and used the routes we are proposing and a session has taken place with said councils for feedback and lessons learnt so this can be applied to York's process.

As highlighted above within the Legal section, agreements will need to be put in place in order to protect the council from any potential breaches and costing issues. Each agreement that is required, will link each participating authority into the same conditions and requirements. There are no major procurement risks or challenges with the proposed routes.

**Crime and Disorder** - None.

**Information Technology (IT)** - Civica APP database (FLARE) and MS SharePoint will be utilised in order to manage project information and data.

**Property** - None

### **Risk Management**

Project delivery of the Home Energy Efficiency Programme is overseen by the Housing Energy Efficiency Board led by the Head of Housing

Delivery and Asset Management. A working group of officers from the consortia of councils are already managing risks within the LAD 1B and LAD2 programmes. A risk sharing agreement has been signed by the councils. Staffing resources will be flexed to reflect the demand of the delivery of projects.

### Contact Details

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Director of Housing, Economy and Regeneration

**Report Approved**



**Date**

29/11/21

**Specialist Implications Officer(s)**

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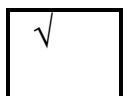
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**All**



**Wards Affected:** *List wards or tick box to indicate all*

## **Abbreviations**

|      |  |
|------|--|
| BEIS | Department of Business, Energy and Industrial Strategy |
| EPC  | Energy Performance Certificate                         |
| LAD  | Local Authority Delivery                               |
| SHDF | Social Housing Decarbonisation Fund                    |

## **Background Documents**

- Council Housing Energy Retrofit Programme – December 2020 – Executive
- Update on the Housing Energy Retrofit Programme – March 2021 – Decision Session: Executive Member for Housing and Public Protection
- Update on the Housing Energy Efficiency Programme and Grant Application for the Sustainable Warmth Competition – Decision Session: Executive Member for Housing and Public Protection

## **Annexes**

Annex 1 – UNECE Memorandum of Understanding