

Cheltenham Borough Council

Cabinet – 11th October 2022

Social Housing Decarbonisation Fund: Wave 2.1

Agreement to submit a grant bid

Accountable members:

Councillor Victoria Atherstone – Cabinet Member for Housing

Councillor Alisha Lewis – Cabinet Member Climate Emergency

Accountable officer:

Martin Stacy – Housing Strategy & Partnerships Manager

Accountable scrutiny committee:

n/a

Ward(s) affected:

All

Key/Significant Decision:

Yes

Executive summary:

Cheltenham Borough Council (CBC) has set a challenging target for Cheltenham to be net carbon zero by 2030. As a result, Cheltenham Borough Homes (CBH) is delivering a CBH Climate Action Plan to assist in achieving CBC's targets. This includes plans for CBC's existing social housing portfolio, taking account of associated Housing Revenue Account (HRA) budgetary requirements. Under the Government's £3.8bn Decarbonisation fund, CBC has already been successful in securing grant funding under the Social Housing Decarbonisation Fund (SHDF) Demonstrator Project and Wave 1 bid rounds, through consortium bids with other Gloucestershire local authorities and registered social landlords. The Department for Business, Energy and Industrial Strategy (BEIS) has now released a competition for £800m grant funding through the SHDF Wave 2.1. The grant funding intensity is for up to 50% of project costs; but with cost caps based on the current property energy performance (EPC) and construction

type, with a delivery period for works commencing in April 2023 and running through to June 2025 (2 years), and with grant funding to be spent by 31st March 2025.

The grant funding is aimed at ‘fabric first measures’, such as improved insulation to reduce the energy demand of homes, with eligible homes currently being SAP D or below. The measures must improve the home to at least SAP C and reduce the energy demand to no more than 90kWh/m²/pa. Other measures, such as low carbon heating solutions may be considered; however, they must not result in increased energy costs for the resident. All work undertaken must be compliant with the British Standards Institution’s framework of technical standards for retrofit (as detailed in PAS 2035:2019 *Retrofitting Dwellings for Improved Energy Efficiency - Specification and Guidance*). It is expected that adherence to the PAS 2035 standards and a fabric first approach may require other measures such as improved ventilation systems as well as additional testing (air tightness testing) and monitoring (internal air quality).

As with previous bidding rounds for Decarbonisation Grants, CBC/CBH propose to submit a bid for grant funding as part of a wider consortium, which at present is anticipated will comprise:

- CBC (and CBH, as managing agents)
- Stroud District Council (as the lead authority)
- Two Rivers Housing
- Gloucester City Homes

It is intended that the bid will include ‘fabric first’ works to around 200 CBC homes at a total budget cost in the region of £5m¹. The measures proposed include:

- Upgrading loft insulation to 400mm
- Installation of external wall or cavity insulation
- Ventilation

The anticipated grant level is estimated to be up to around £2m, with CBC funding up to around £3m through the Housing Revenue Account (HRA). Due to the timescales for preparation and submission of the bid and the extensive work involved in modelling the housing stock using the grant criteria it is possible that the final bid numbers and values could vary slightly from the stated amounts.

Please note that as a number of acronyms are used throughout this report, a glossary of these key terms are provided at Appendix 3 of this report.

Recommendations: That Cabinet

- 1. Agrees to inclusion of CBC in the consortium bid to be submitted by Stroud District Council for grant funding under SHDF Wave 2.1;**
- 2. Delegates authority to the Housing Strategy & Partnerships Manager, in consultation with Cabinet Members for Housing and Climate Emergency, and s.151 Officer, to agree to any uplift to CBC’s financial commitment in respect of this grant funding application if it**

¹ Note: The exact number of properties, energy efficiency measures (potentially including low carbon heating) is currently being defined from detailed analysis of the stock hence these figures could change slightly. The proposal deadline for submission is expected to be 31st October, although this is yet to be confirmed by BEIS (draft timeline only available at this stage).

significantly exceeds the anticipated £3m HRA commitment (as detailed within this report, and subject to any final approval by Council of the 2023/24 HRA budget in February 2023);

- 3. Delegates authority to the Housing Strategy & Partnerships Manager, in consultation with Cabinet Members for Housing and Climate Emergency, to accept the said grant funding offer, if the bid is successful, and to enter into any agreements or documentation as necessary;**
 - 4. Delegates authority to the Housing Strategy & Partnerships Manager to enter into a partnership agreement with Stroud District Council and the other consortium members, if the bid is successful.**
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1. Implications

1.1. Financial implications

The anticipated grant level is estimated to be up to around £2m, with CBC funding the difference, around £3m, through the HRA. In February 2022, Council approved the HRA budget for 2022/23. Our HRA budget also included projected budgetary requirements of £2m/year for 2023/24 and 2024/25 respectively in order to improve the energy efficiency of our council homes. Our HRA Capital programme budgetary requirements will therefore be reviewed in light of our proposed decarbonisation grant funding bid. It is anticipated this will be done in February 2023, as part of the Council's approval of the HRA budgets for 2023/24.

The anticipated grant level is the total value of the maximum grant per property and if the number of properties included is reduced, the grant available will also reduce. Cost estimates are based on current prices and could increase due to current market pressures. If costs do increase, then the level of funding required from the HRA may need to increase to cover the price rises.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 Officer)

Gemma.bell@cheltenham.gov.uk 01242 264124

1.2. Legal implications

The lead authority for this project is Stroud District Council. If successful, and if the rules follow the same as wave 1, Stroud District Council will be required to enter into a Memorandum of Understanding with BEIS and will be paid by the Government upon provision of required documentation. Stroud District Council will be responsible for distributing to the partners the relevant grant allocation. CBC will be required to enter into a Partnership Agreement with Stroud District Council and the other consortium members which will set out the roles and responsibilities of the respective parties to the agreement.

Due to the nature of wave 1, there were state aid implications that needed to be complied to ensure compliance with a General Block Exemption that permitted BEIS granting the aid to the Councils. The Subsidy Control regime and Subsidy Control Act 2022 has replaced state aid. Before submitting a bid under wave 2, the Council needs to ensure that it understands and is able to comply with any subsidy controls.

The Council's Contract Rules will have to be complied with when appointing contractors to deliver the works the subject of the bid.

Signed off by: Donna Ruck, Senior Lawyer, One Legal

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1.3. HR implications

None as a direct consequence of this report.

1.4. Environmental and climate change implications

Fabric improvement of the HRA housing stock reduces heat demand and hence energy demand, thus reducing greenhouse gas emissions and supporting CBC's net zero aspiration. Installation of low carbon heating technologies would further support this. Additionally, improving the fabric of a dwelling can reduce the likelihood of overheating during heat wave periods, supporting climate change adaptation ambitions set out by CBC. Utilising available grant funding maximises the improvements that can be funded through the HRA.

Signed off by: Laura Tapping, Climate Emergency Programme Officer

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1.5. Property/asset implications

Improving homes to make them more energy efficient not only assists in meeting CBC's targets for Cheltenham to become net carbon zero, it will also help to ensure homes remain desirable, thereby reducing the potential for obsolescence.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 Officer)

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1.6. Corporate policy framework implications

This initiative will support one of CBC's key priorities within our corporate plan, which is to achieve a cleaner and greener sustainable environment, as well as improved health outcomes as a result of better insulated homes.

Signed off by: Richard Gibson, Head of Communities, Wellbeing & Partnerships

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2. Promoting equality and reducing discrimination

None as a direct consequence of this report

3. Performance management – monitoring and review

If successful, Stroud District Council, as the lead authority, will provide regular progress updates to BEIS for the grant funding to be paid. Regular updates on programme delivery will also be provided to the

Housing Strategy & Partnership's Manager as part of the CBC-CBH quarterly senior officer liaison meetings.

4. Background

- 4.1. CBC has set a challenging target for Cheltenham to be net carbon zero by 2030. As a result, CBH are delivering a Climate Action Plan (for the managed CBC homes, CBH business and CBH owned homes) to assist CBC in achieving its net carbon zero target. This includes plans for our existing social housing portfolio, taking account of associated HRA budgetary requirements. Around 4,500 homes will need to be improved over the next 8 years to meet the net zero carbon target.
- 4.2. The SHDF Wave 2.1 is an £800m grant competition under the government's £3.8bn funding commitment to support social landlords to tackle climate change. This funding follows on from the SHDF Demonstrator and Wave 1 Funding initiatives (for which CBC has already been successful in securing grant funding, through consortium bids with Stroud District Council, Two Rivers Housing and Gloucester City Homes).
- 4.3. The objectives of Wave 2.1 are:
 - To reduce the number of households in fuel poverty
 - Deliver cost effective carbon savings
 - Improve comfort, health and well-being of social housing tenants
 - Support economic resilience and green recovery
 - Develop a retrofit sector, creating conditions for growth in retrofit supply chain capacity and capabilities
- 4.4. The minimum bid requirement for Wave 2.1 is for 100 eligible social homes. BEIS have advised that they will favour bids delivering improvement to significant numbers of homes and as such consortium bids from smaller providers are considered to be more compelling than individual bids. To this end, we have been working with Stroud District Council who would again act as the lead authority. In addition to CBC/CBH, Two Rivers Housing and Gloucester City Homes have expressed an interest in being part of the consortium bid.
- 4.5. The closing date for bids has now been confirmed as 18th November 2022. If successful, Stroud District Council will be required to enter into a Memorandum of Understanding with BEIS. Stroud DC will receive all the funding on behalf of the parties to the consortium, and this will then be distributed to the consortium members in line with the requirements as set out in a

partnership agreement (provided also that any conditions stipulated by BEIS have been met).

4.6. Assuming the consortium's proposed bid is successful, then all works must be delivered by June 2025, with grant funding utilised by 31st March 2025. This will provide a two-year delivery period, with an anticipated requirement that around 40% of works be delivered in the first year and the remaining 60% in year two.

4.7. It is anticipated that this round of grant funding will expect bidders to focus on the following:

- Taking a 'fabric first' approach (i.e. heat loss prevention measures), focussing on measures of low complexity and delivering high volumes;
- Homes must be poor performing (SAP D or below) and the measures proposed must improve the energy performance of homes to at least SAP C with a heat demand no greater than 90kWh/m²/pa.
- Heating measures (non-fossil fuel) will be considered if they improve the energy efficiency of homes; however this (without other measures) must not result in an increase in the energy costs for the resident, and fabric measures must be undertaken first.
- All works must be undertaken to PAS2035; this being the mandatory standard specification for energy retrofit of domestic buildings receiving public funding.

4.8. There is no income related eligibility for social housing tenants, and works to leasehold properties can be included where this is required as 'infill' - for instance, to provide complete external wall insulation to a block (although there is a limit on the overall proportion of leasehold properties that can be included). The eligibility for leaseholders is means-tested, with 100% of costs grant funded for leaseholders with an annual income no more than £31,000. Leaseholders with an income above this will be required to contribute 1/3 of costs, up to a maximum of £3,300. Any difference will have to be made up by the HRA; however, this will assist in CBC achieving the wider goal of Cheltenham becoming net carbon zero. It is anticipated that some leasehold properties will be included within this programme. Any proposed works that include leaseholders will be subject to the usual consultation requirements.

4.9. In order to identify homes to be included within the bid, it is necessary to first identify those with a SAP D rating or below that can be improved to at least a SAP C through the eligible measures, and those which also meet the energy demand requirement. Modelling this scenario has identified around 200 homes (allowing for an element of refusal) that meet the eligibility requirements for measures including loft, cavity and external wall insulation. In addition, it is anticipated that the bid will include a small number of low carbon heating upgrades. Alongside improvements to insulation and to meet PAS 2035 requirements, it is

important to improve ventilation to combat issues related to condensation and this will also be included within proposals.

4.10. Development of the bid proposal involves a detailed assessment of the eligible measures, along with an assessment of the number homes that can benefit, as well as the level of improvement that can be achieved. Further analysis will be required, and it is possible that the ultimate number of homes could reduce slightly.

4.11. The bid will include provision for administration and ancillary costs, these being legitimate cost elements. If successful, this funding will therefore support the increased resource that will be required to deliver the programme.

5. Reasons for recommendations

5.1. CBC/CBH are committed to improving homes to assist in achieving CBC's 2030 net carbon zero target, as well as reducing the burden of fuel poverty for its residents. This investment in our housing stock will come at a significant cost to the HRA. It is therefore important that CBC makes best use of grant funding opportunities as and when these become available.

5.2. In addition to tenants saving on their energy consumption, they will also benefit from improved comfort levels in their home, which in turn will improve their overall health and wellbeing.

6. Alternative options considered

6.1. Not to submit a bid for grant funding. It is recommended this option is rejected on the basis that it would deny CBC the opportunity to secure additional funding to improve the energy efficiency of our council homes.

7. Consultation and feedback

7.1. The bid proposals have been discussed with Cabinet members for Housing and Climate Emergency who are in support of the bid.

7.2. Work is ongoing with the other consortium members, and discussions have been supported by Turner and Townsend the third-party consultants appointed by BEIS to facilitate bid.

8. Key risks

8.1. If CBH, on behalf of CBC, are unable to procure the works and deliver them by the deadline of June 2025, then some or all of the grant funding may be withdrawn. CBH will seek to reduce this risk by ensuring a detailed project plan is in place, paying particular attention to procurement timetables.

8.2. If costs increase due to inflationary pressures, then a greater financial burden will be borne on

the HRA. CBH will aim to mitigate against this risk by exploring joint procurement opportunities with other consortium members in order to generate better economies of scale.

8.3. Please refer to Appendix 1 for a full assessment of risks.

Report author:

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Appendices:

- 1 Risk Assessment
- 2 Climate Change Impact Assessment
- 3 Glossary

Background information:

N/A

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
1	If there is a breach of the Subsidy Control Act 2022, then either the grant funding will not be made to the council, or if payments have already been made, then the council will be required to return the grant funding (with interest).	Martin Stacy	2	3	6	Reduce	An assessment of implications of any restrictions due to the Subsidy Control Act 2022 will be made. CBH will seek approval from Council to include a contingency in the HRA budget, in the event that grant funding is claimed back/subsequently withheld.	Vicky Day	March 2025
2	If CBH are unable to procure the works and deliver them by the deadline of June 2025, then the grant funding may be withdrawn	Vicky Day	4	3	12	Reduce	A project plan will be produced and will be monitored closely to ensure actions to mitigate delays are taken in a timely way. Procurement options will be an early consideration	Vicky Day	Sept 2023
3	If there is no budget (over and above the grant funding) then the initiative will not proceed, and any grant funding received will have to be returned with interest.	Paul Jones	2	5	10	Reduce	Budget proposals for 2023/24 and 2024/25 included for £2m funding/year. This will be reviewed and updated and we will seek approval from Council via next HRA budget round for 2023/24 and request commitment to the funding requirements for 2024/25 at	Vicky Day	Feb 2024

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							that time.		
4.	If the number of homes or measures varies to those included in the grant bid, once detailed analysis has been undertaken, the amount of grant funding and HRA match funding will vary.	Vicky Day	2	4	8	Reduce	Detailed budget management and reporting will be a feature of the project, the programme will be managed to ensure that costs do not exceed the initial bid process without approval	Vicky Day	Feb 2024
5.	If the number of parties to the consortium reduces then a grant bid could become ineligible.	Vicky Day	2	2	4	Reduce	Discussions with other parties are ongoing and it is considered unlikely that any drop out will impact on the ability to submit a bid, unless Stroud District Council were to pull out, though this is very unlikely	Vicky Day	Oct 2022
6.	If leaseholders affected by proposed improvements refuse to allow works to progress then this could delay delivery beyond the grant deadline for the grant.	Vicky Day	4	2	8	Reduce	Early engagement with leaseholders to reduce risk of delays. Leaseholders will benefit from either 100% grant funding or if required to contribute then costs would be capped at £3,300, the benefits from reduced energy costs and increased asset value would outweigh this so it is	Vicky Day	March 2025

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							considered very unlikely that refusal would be an issue.		
7	If costs increase then the additional costs will be borne by the HRA	Vicky Day	3	4	12	Reduce	New procurement exercises will be undertaken and we will investigate opportunities for joint procurement with other consortium members, which could result in more competitive prices due to increased volume of work	Sept 2023	Vicky Day