

CABINET MEETING – 22 MARCH 2022

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Social Housing Decarbonisation Fund and Warm Homes Fund

Author(s):

Executive Director of City Development

Purpose of Report:

This report seeks approval for the delivery of the Social Housing Decarbonisation Fund (SHDF) Wave 1 project and, subject to the award of external funding, the Warm Homes Fund (WHF) projects.

Description of Decision:

Cabinet is recommended to:

- (i) Approve the delivery of the Social Housing Decarbonisation Fund (SHDF) Wave 1 project and receipt of £1,236,513 from the Department for Business, Energy and Industrial Strategy (BEIS);
- (ii) Authorise the Executive Director of City Development, in consultation with the Executive Director of Corporate Services and the Leader and Portfolio Holder for Dynamic City, to take all necessary steps to deliver the SHDF Wave 1 project, including to agree and enter into an Agreement with Gentoo Group Ltd ('Gentoo') for the delivery of the project;
- (iii) Subject to the award of the relevant external funding, approve delivery of the Warm Homes Fund (WHF) projects;
- (iv) Subject to the award of the relevant external funding, authorise the Executive Director of City Development, in consultation with the Executive Director of Corporate Services and the Leader and Portfolio Holder for Dynamic City, to take all necessary steps to deliver the WHF projects, including the procurement and appointment of a contractor to deliver the proposed installation works, and to agree and enter into a Partnership Agreement with Groundwork North East and the Citizens Advice Bureau as delivery partners; and
- (v) Approve the proposed funding arrangements for delivery of the SHDF Wave 1 and WHF projects as set out in this report and approve the resultant variation to the Capital Programme.

Is the decision consistent with the Budget/Policy Framework?		*Yes					
If not, Council approval is required to change the Budget/Policy Framework							
Suggested reason(s) for Decision: <p>Funding for delivery of the Social Housing Decarbonisation Fund Wave 1 project has been secured through a competitive bidding programme. In partnership with Gentoo, the project will comprise the decarbonisation upgrading works to 604 social rented homes located across Sunderland. The project will support delivery of the city-wide Low Carbon Framework and target for the city to become carbon neutral by 2040, contributing to one of the Framework's seven strategic priorities.</p> <p>Two applications for £948,143 of funding from the Warm Homes Fund have been submitted through a competitive bidding programme. If successful the projects will comprise decarbonisation upgrading works for up to 135 private sector homes and, through partnership working with Groundwork North East and the Citizens Advice Bureau, provide advice to homeowners and private landlords on the decarbonisation options and benefits for their residential properties.</p> <p>Domestic energy has been identified as an area where significant emissions reductions need to be achieved across the city. Improving energy efficiency is also expected to generate wider benefits in relation to reducing fuel poverty, improving health and wellbeing, as well as supporting the green economy.</p>							
Alternative options to be considered and recommended to be rejected: <p>The alternative option would be to not progress delivery of the SHDF project and/or the WHF project (subject to the WHF application being successful). In total, £1,236,513 of external grant has been secured from BEIS by the Council in partnership with Gentoo for the SHDF Wave 1 scheme, which would otherwise be lost together with the significant decarbonisation benefits which would be delivered to 604 housing units.</p> <p>Similarly, subject to a successful outcome to the WHF applications submitted, it is anticipated that £948,143 of external grant will be secured to deliver decarbonisation improvements for up to 135 private properties within the city, which would otherwise be lost together with the associated decarbonisation and wider benefits.</p>							
Impacts analysed:							
Equality	<input checked="" type="checkbox"/>	Privacy	<input type="checkbox"/>	Sustainability	<input checked="" type="checkbox"/>	Crime and Disorder	<input type="checkbox"/>
Is the Decision consistent with the Council's co-operative values?		Yes					
Is this a "Key Decision" as defined in the Constitution?		Yes					
Is it included in the 28 day Notice of Decisions?		Yes					

SOCIAL HOUSING DECARBONISATION FUND AND WARM HOMES FUND

REPORT OF THE EXECUTIVE DIRECTOR OF CITY DEVELOPMENT

1.0 Purpose of Report

- 1.1 This report seeks approval for the delivery of the Social Housing Decarbonisation Fund (SHDF) Wave 1 project and, subject to the award of external funding, the Warm Homes Fund (WHF) project.

2.0 Description of Decision

- 2.1 Cabinet is recommended to:

- (i) Approve the delivery of the Social Housing Decarbonisation Fund (SHDF) Wave 1 project and receipt of £1,236,513 from the Department for Business, Energy and Industrial Strategy (BEIS);
- (ii) Authorise the Executive Director of City Development, in consultation with the Executive Director of Corporate Services and the Leader and Portfolio Holder for Dynamic City, to take all necessary steps to deliver the SHDF Wave 1 project, including to agree and enter into an Agreement with Gentoo Group Ltd ('Gentoo') for delivery of the SHDF Wave 1 project reflecting Gentoo's role as the main delivery partner
- (iii) Subject to the award of the relevant external funding, approve delivery of the Warm Homes Fund (WHF) project;
- (iv) Subject to the award of the relevant external funding, authorise the Executive Director of City Development, in consultation with the Executive Director of Corporate Services and the Leader and Portfolio Holder for Dynamic City, to take all necessary steps to deliver the WHF projects, including the procurement and appointment of a contractor to deliver the proposed installation works and to agree and enter into a Partnership Agreement with Groundwork North East and the Citizens Advice Bureau as the main delivery partners; and
- (v) Approve the proposed funding arrangements for delivery of the SHDF Wave 1 and WHF projects as set out in this report and approve the resultant variation to the Capital Programme.

3.0 Background

- 3.1 The Council has been successful in recent years in securing significant levels of external funding to deliver priority activities and projects that support the objectives of the City Plan.

- 3.2 In December 2020 partners across the city adopted the Low Carbon Framework that will drive down emissions and seek to make the city carbon neutral by 2040. A range of people and organisations have all helped shape the Framework, which sets out ways in which we can all do our bit to reduce our carbon footprint, and play a part in the fight to limit the global temperature rise to below 1.5°C.
- 3.3 The Low Carbon Framework therefore provides a high-level strategic framework for how we will play our part as a city in meeting the commitments under the Paris Agreement, and our commitments as a signatory of the EU Covenant of Mayors, renewed UK100 Pledge, and through our declaration in March 2019 of a climate emergency. It focuses activity around seven strategic priorities, putting people at its heart - changing our behaviours, changing our organisational policies and practices, and setting out 5 thematic areas under which work will be taken forward. These focus on the built environment, green economy, low carbon energy generation and storage, consumption and waste, low carbon and active transport.
- 3.4 Recognising that tackling Climate Change is too great a task for any one body/organisation, the 2030 Shadow Board was set up bringing together representatives from across the city such as the NHS, Gentoo, University of Sunderland, Sunderland College, NE Chamber of Commerce as well with Elected Member representation from each Political Group on the Council. The 2030 Shadow Board drove development of the Low Carbon Framework during 2020 and will play a strategic role in its delivery.
- 3.5 The SHDF project and proposed WHF projects will make a direct contribution to the strategic priority within the Low Carbon Framework focused on the built environment. Both the SHDF and WHF projects reflect the partnership approach which is considered essential to Sunderland being able to deliver against its ambition in relation to emissions reductions. The Annual Report recently prepared by the Council identifies city-wide emissions of 411,461 tonnes from domestic energy based on 2019 data (the most recent data set available from BEIS). This is a clear indication of the need to develop activity in this area to reduce emission levels associated with domestic energy.

Social Housing Decarbonisation Fund (SHDF)

- 3.6 The SHDF (Wave 1) programme launched its application process and guidance on 23 August 2021 with a deadline of 15 October 2021 and builds upon the previous £62m Social Housing Decarbonisation Fund Demonstrator phase.
- 3.7 The SHDF (Wave 1) programme provides a further £179m focusing on all social housing archetypes, both on- and off-gas grid, including high rise buildings. Wave 1 of the SHDF seeks to retrofit a significantly greater number of properties primarily focused on fabric-first solutions. Projects will commence on 1 April 2022 and must be completed by 31 March 2023.

- 3.8 The programme allows clean heat installations to be installed alongside fabric improvements and must not result in increased bills in isolation compared to existing heating systems. The worst properties in terms of Energy Performance Certificate (EPC) bands are to be prioritised and works undertaken must result in achieving a minimum of EPC Band C rating. Projects must be led by local authorities but must relate to existing social housing (and therefore in Sunderland's case, require a collaborative bid with a major registered provider). The Government expects to contribute two-thirds of the costs with landlords expected to contribute one third.
- 3.9 The SHDF (Wave 1) programme is based upon the following principles:
- Worst First: Facilitating the treatment of the worst performing homes in relation to their energy efficiency;
 - Fabric First: A fabric first approach (of insulation and heat loss prevention measures) is required; and
 - Lowest Regrets: The approach to retrofit taken should minimise the potential of measures installed through SHDF having to be replaced in the future on the journey to Net Zero for the social housing stock.
- 3.10 Projects are expected to achieve the following objectives:
- 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;
 - 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; and
 - Tenants: Improve the comfort, health, and well-being of social housing tenants by delivering warmer and more energy-efficient homes.
- 3.11 Subject to future spending reviews, further waves are planned, providing up to £3.8bn in total by 2030/31.

Warm Homes Fund (WHF)

- 3.12 In 2017 National Grid and Community Interest Company Affordable Warmth Solutions (AWS) established the £150 million Warm Homes Fund (WHF) to help make households in Great Britain warmer, healthier, and more economical to heat.

- 3.13 Since then, the WHF has provided funding for the installation of affordable heating solutions in fuel poor households for those who did not use mains gas as their primary heating fuel. In addition, funding has been provided to enable the provision of energy efficiency and income maximisation advice to further enable households to reduce the fuel poverty gap. The Council has submitted partnership bids to WHF in previous rounds (2018 and 2019), however, both proposals were unsuccessful. The two proposals presented here will aim to deliver more targeted support and will build on the experience of delivery under the Local Authority Delivery Green Homes Grant (LAD Phase 2) programme, which runs to June 2022, and the Energy Company Obligation (ECO Flex) Scheme, which tackles fuel poverty through gas boiler upgrades and insulation measures for owner occupiers.
- 3.14 The fund is designed to support a range of interventions and to complement other funds and contributions. Key measures focus on:
- the installation of affordable heating solutions in fuel poor households which don't use mains gas as their primary source of heat;
 - activities to support people with health conditions living in fuel poor households, particularly in urban areas with a high Indices of Multiple Deprivation (IMD) ranking and with high concentrations of fuel poverty; and
 - local projects which support a community partnership approach to energy advice and information.
- 3.15 In support of the new energy landscape, AWS (as the fund administrator) invited applications from Local Authorities and Registered Social Landlords (RSLs) for: Lot (1) low carbon first-time central heating solutions; and Lot (2) advice services in support of first-time central heating solutions. AWS is looking for scale in the bids and, with a delivery period of two years, projects must have clear plans for mobilisation from 1 April 2022.
- 3.16 The specific objectives of WHF are to increase comfort in non-gas fuel poor households, accelerate take-up of low carbon heating measures, reduce bills and improve health outcomes for some of the most severe levels of fuel poverty. As a minimum, bids should result in one or more of the following outcomes:
- Increased comfort - the aim is to see the greatest number of fuel poor households have an affordable central heating solution installed for the first time.
 - Lower bills - allow households to keep warm for less by moving away from other more expensive forms of room heating, allowing them to heat their home adequately whilst saving on cost.
 - Improved targeting – encouraging bidders to utilise innovative ways of identifying and reaching fuel poor households e.g. collaboration with other schemes including the Government's Energy Company Obligation and Home Upgrade Grant.
 - Improved partnership - building existing and new partnerships with local health boards, local supply chains, consumer organisations, voluntary sector and householders.

- Improved evidence base – build on learning from other schemes, in particular better targeted investment in homes where there is clear evidence of health issues.
- 3.17 This phase of WHF is intended to provide particular support to owner/occupier and private rented households. It is a requirement of WHF grant that funds from other sources (e.g. Boiler Upgrade Scheme, ECOFLEX, private landlord and partner contributions) should be blended in so that the WHF contribution covers any shortfall rather than being the primary source of funding.
- 3.18 This proposal focuses on the private rented and owner occupier tenures which has been identified by the funder as the primary focus for support for this phase of WHF.
- 3.19 The WHF will fund measures in eligible properties that have an EPC rating of band E, F or G, have coal as a primary heating source, or do not have a central heating system currently installed. A maximum of 30% of properties rated D are allowed, however, this proposal intends to prioritise EPC bands E-G. Currently in the city, we have established there are approximately 11,106 domestic properties with an EPC rating E, F or G, of which 1,100 are in the private sector and deemed eligible for WHF support.

4.0 Project Proposals

Sunderland Proposal – Social Housing Decarbonisation Fund

- 4.1 The Council, as lead applicant for the funding application, working closely with Gentoo as a key registered provider in the city, has secured up to circa £1,236,513 grant support against a total project cost of £2,668,115. The project will comprise the decarbonisation upgrading works to 604 social housing units owned by Gentoo across Sunderland including loft insulation, a combination of loft and window upgrades and fabric enhancements, such as external wall insulation and flat roof upgrades. The development of the project draws on comprehensive work which has been undertaken by Gentoo to review energy data across its housing stock as part of the ongoing development and delivery of its corporate strategy.
- 4.2 The properties on the windows replacement list have all been assessed and by undertaking this fabric measure, Gentoo will be able to move 309 properties from an EPC band D to C rating. The measures for loft insulation follow the same path as the windows and this measure will improve the EPC ratings up to band C for 249 properties.
- 4.3 A further 21 units have been identified at Whinfell, Washington which will receive the fabric enhancement works as these are considered to be hard to treat, non-traditional properties. These properties pose a significant challenge due to their current low EPC rating and require significant measures to improve them to achieve an EPC band C rating. The funding from BEIS will therefore help to secure the necessary improvements to these properties which would otherwise prove difficult to fund and deliver.

- 4.4 The decarbonation scheme is in line with Gentoo's corporate strategy and the City-wide and Council's Low Carbon commitments. Gentoo currently has circa 9,000 properties at EPC D and below and by providing these crucial upgrade works this scheme will allow Gentoo to reduce fuel bills for customers, make their homes more thermally efficient and help Gentoo meet the 2030 deadline for EPC band C significantly ahead of target. It will also help the Council and its partners work towards their commitments established through the Low Carbon Framework and renewed UK 100 Pledge.
- 4.5 The project will be delivered in full by Gentoo, who as the landlord of the properties will be wholly responsible for providing the £1,431,602 match funding identified in the approved full application matched with £1,236,513 grant support to give a total project cost of £2,668,115. In accordance with the application guidance, a maximum of 15% of the total capital project cost is aligned to Administration and Ancillary (A&A) costs. No additional financial commitment from the Council is required, however existing staff input will be needed to support with governance, management and monitoring of the project. These costs have been factored into the A&A costs within the submission.
- 4.6 The Council will be required to enter into an agreement with BEIS in the form of a Memorandum of Understanding. The Council will in turn need to enter into a back-to-back agreement – referred to as the Partnership Agreement - with Gentoo passporting responsibilities and requirements to Gentoo. A project board will be established, with relevant officers from the Council in attendance, to oversee management and monitoring of the project.

Sunderland Proposal – Warm Homes Fund

- 4.7 The Sunderland proposal includes two inter-related projects, one against each of the lots identified earlier (see 3.15 above). Development of both Sunderland projects have been led by a cross-organisational team from Property Services, Low Carbon, Community Resilience and Housing Strategy Teams with support from Financial Resources and Corporate Procurement. In addition, engagement with Groundwork North East, the Citizens Advice Bureau and GP Alliance has taken place to support with community engagement and the delivery of advisory and support services proposed under Lot 2. During the project's development, the project team has also engaged with the Sunderland VCS Alliance to support with raising awareness and generating referrals from target households across the city.
- 4.8 The 2 inter-related projects are summarised below:

Lot 1: Low carbon first-time central heating solutions

This project aims to identify and target eligible properties using refined GIS/EPC data supported by community-based local services and followed up by bespoke household engagement and WHF uptake advice and support service. The project will aim to deliver 135 Air Source Heat Pumps installing a mix of all electric Heat Pumps or Gas hybrids – dependent on resident preferences / technical requirements. WHF grant must be used to prioritise low-income E-F-G properties. By implementing a Fabric-First, Whole House Approach the Council will draw on other funding streams (ECO, LAD2) to fully insulate qualifying properties and where possible also install Solar PV to complement the measures funded by WHF. The 135 properties that will benefit from the central heating measures will be a combination of privately owned (70%) and privately rented (30%) properties.

Lot 2: Specific energy efficiency and health related solutions

The proposed project delivery partners under Lot 2 are Groundwork North East and the Citizens Advice Bureau both of which have a strong track record of delivering a range of energy, debt and support services across the city targeting fuel poor households. The WHF grant will enable them to employ additional staff resource to support the delivery of the required outcomes of Lot 1.

- 4.9 Through the Sunderland VCS Alliance we will also aim to work with other community partners to ensure we maximise engagement and take-up of both the low carbon heating installations (Lot 1) and the support programme (Lot 2).
- 4.10 If the current application is successful for the WHF grant for first-time central heating systems, it will be highly beneficial to the city's domestic low carbon targets and will have a significant impact in alleviating the effects of fuel poverty among its residents.
- 4.11 The Council will manage the delivery of Lot 1 and will procure contractors in accordance with the Council's Procurement Procedure Rules. Subject to approval it is proposed that the project will start in April 2022 and be delivered over a 2-year timeframe.
- 4.12 Management and coordination of the project will be overseen by a project steering group, involving officers from the Low Carbon Team, Property Services, Housing Strategy, Community Resilience, Procurement and Financial Resources. Project management resource, administration, and marketing costs, estimated at 10%% of total project costs, have been included in the proposal. A small amount of officer time would be required to monitor progress on this activity and manage claims for funding. The payment profile and conditions for Lot 1 delivery will be established at the contracting stage, in line with Council Procurement and funding requirements. It is anticipated that on receipt of a full installation and commissioning pack for each property and subject to satisfactory evidence being provided, including compliance and accreditation with the required industry standards, payment would be made to the appointed contractors.

- 4.13 A total of £948,143 of external funding has been sought through the WHF bids (£695,750 for Lot 1 and £252,393 for Lot 2). It is anticipated that other funds, including from the Government's Boiler Upgrade Scheme and private landlord contributions, will need to be secured to contribute a minimum of £415,000 to co-fund the capital costs under Lot 1. In kind funding support has also been identified by each partner, £30,272 to support the delivery of Lot 1 and £83,437 to support Lot 2. As set out above, if the funding applications are successful procurement of the central heating measures will also be required, and the costs therefore will be subject to change.
- 4.14 No additional financial commitment from the Council is required, however existing in kind staff time is required to support with governance, management and monitoring of the projects. The proposed role and costs for the Council and each delivery partner have been described in the full bids. The projects will seek to build on and extend the project management resources already in place through the LAD Phase 2 programme which runs to June 2022.
- 4.15 Subject to approval of both projects (Lots 1 and 2), the Council will be required to enter into a funding agreement with National Grid/AWS. The Council will in turn need to procure contractors to deliver the Central Heating measures under Lot 1 and enter into a local grant funding agreement with Groundwork North East and the Citizens Advice Bureau under Lot 2, passporting specified delivery responsibilities and appropriate funding conditions to these partners. A project board will be established, with relevant officers from the Council in attendance, to oversee management and monitoring of the project.

5.0 Reason for Decision

- 5.1 Funding for delivery of the Social Housing Decarbonisation Fund Wave 1 project has been secured through a competitive bidding programme. In partnership with Gentoo, the project will comprise the decarbonisation upgrading works to 604 social rented homes located across Sunderland. The project will support delivery of the city-wide Low Carbon Framework and target for the city to become carbon neutral by 2040, contributing to one of the Framework's seven strategic priorities.
- 5.2 Two applications seeking a combined amount of £948,143 grant support from the Warm Homes Fund have been submitted through a competitive bidding programme. If successful the two projects will comprise decarbonisation upgrading works for up to 135 private sector homes and, through partnership working with Groundwork North East and the Citizens Advice Bureau, provide advice to homeowners and private landlords on the decarbonisation options and benefits for their residential properties.
- 5.3 Domestic energy has been identified as an area where significant emissions reductions need to be achieved across the city. Improving energy efficiency is also expected to generate wider benefits in relation to reducing fuel poverty, improving health and wellbeing, as well as supporting the green economy. The delivery of these programmes represent important pilot projects for the city, creating additional learning opportunities for the Council and its partners and supporting the acceleration of the city's low carbon targets.

6.0 Alternative Options

- 6.1 The alternative option would be to not progress delivery of the SHDF project and of the WHF project (subject to the WHF application being successful). £1,236,513 of external grant has been secured from BEIS by the Council in partnership with Gentoo for the SHDF Wave 1 scheme, which would otherwise be lost together with the decarbonisation benefits which would be delivered to 604 housing units.
- 6.2 Similarly, subject to a successful outcome to the WHF applications submitted, £948,143 of external grant will be secured to deliver decarbonisation improvements for up to 135 private properties within the city, which would otherwise be lost together with the associated decarbonisation and wider benefits.

7.0 Relevant Considerations

- 7.1 Financial Implications. The cost and funding implications are set out above, including the revenue implications for the Council resulting from the delivery of the Projects. While in kind staff support is required to facilitate management and delivery of the projects, there is no additional match funding commitment towards the capital works from the Council.

Total project costs of the SHDF works are £2,668,115 and will be funded by £1,236,513 grant support with £1,431,602 match funding being met and delivered directly by Gentoo.

For the WHF projects, a total of £948,143 of external funding has been sought of which £695,750 (under Lot 1) relates to capital works and £252,393 (under Lot 2) relates to revenue expenditure. Other funds, including from the Government's Boiler Upgrade Scheme and private landlord contributions totalling a minimum of £415,000, will need to be secured to co-fund the capital costs under Lot 1 and ensure that the project can proceed.

In accordance with the Council's Financial Procedure Rules, the Cabinet may authorise variations to the Capital Programme provided such variations are within available resources and consistent with Council policy. It is proposed that Cabinet authorise the proposed variation.

- 7.2 Legal Implications – The external funding application for each project has been accompanied by a subsidy control analysis in order to demonstrate that there is no unlawful subsidy arising to either the Council or its delivery partners in connection with each project.

Under the proposals, the Council would enter into a funding agreement with the external funder for each project and a subsequent partnership agreement (which will incorporate the relevant external funding terms) with the relevant delivery partner(s). This will ensure that the project agreements are fully back-to-back and that each delivery partner is required to comply with all of the external funding conditions.

- 7.3 Equalities - An Equality Analysis has been undertaken in connection with the projects. A copy is enclosed in Appendix A. In summary, the findings of the EIA are that there will be no known negative equalities impacts as a result of the Project. Positive impacts are anticipated on socio-economic disadvantage, as well as age and disability, as a result of the Projects targeting social housing and low income households respectively with low energy efficiency ratings.
- 7.4 Policy Implications. The Projects will make a strong contribution to the Low Carbon Framework, helping to significantly improve the energy efficiency of a range of social and private homes throughout Sunderland.

8.0 Background Papers

- 8.1 Further information on the Social Housing Decarbonisation Fund (Wave 1) competition can be found here:
[Wave 1 of the Social Housing Decarbonisation Fund \(Closed\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/wave-1-of-the-social-housing-decarbonisation-fund-closed)
Further information on the Warm Homes Fund competition can be found here:
[Warm Homes Fund » Affordable Warmth Solutions](https://www.gov.uk/government/consultations/warm-homes-fund-affordable-warmth-solutions)