

# Birmingham City Council

## Report to Cabinet

8 November 2022



**Subject:** SOCIAL HOUSING DECARBONISATION FUND WAVE 2 – APPROVAL TO BID AND APPROVAL TO SPEND

**Report of:** Julie Griffin – Strategic Director, City Housing

**Relevant Cabinet Member:** Cllr Sharon Thompson – Cabinet Member Housing and Homelessness  
Cllr Yvonne Mosquito – Cabinet Member Finance and Resources

**Relevant O &S Chair(s):** Councillor Mohammed Idrees, Housing and Neighbourhoods  
Councillor Akhlaq Ahmed, Resources

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 010681/2022		
Is the decision eligible for call-in	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential:		

## **1 Executive Summary**

- 1.1 This report seeks approval to apply for the Social Housing Decarbonisation Fund Wave 2. The grant conditions state that Landlords are required to contribute to at least 50% of the costs of installing energy saving measure. The grant is capped at £10,000 per property. This paper seeks approval to bid for grant funding of £23.3m, made up of £19.9m to support the retrofitting of 2,231 City Council homes in Birmingham, for which Birmingham City Council would be committing to funding the remaining £129m of the works to enable each property to achieve the required energy efficiency rating of EPC C.
- 1.2 Within the bid, there is up to 15% administration and ancillary costs and 2% for digitalisation, (up to £0.6m). This report also seeks approval to use Housing Revenue Account (HRA) and additional Capital Borrowing to pay for the remaining costs of the works.
- 1.3 The Council decision by approving this grant application will be a key contribution to reducing carbon emissions, improving energy efficiency, and supporting households by tackling fuel poverty.
- 1.4 The level of risk associated with the impact of the current economic situation and unknown rent levels means that final amount bid would be set by the S151 Officer following approval from Cabinet to delegate this decision.

## **2 Recommendations**

That Cabinet:

- 2.1 Approves, subject to due diligence in relation to affordability of the confirmed total costs, and not exposing risks to the HRA for financial resilience, delegating to the S151 Officer, in consultation with the relevant Cabinet Members (The Leader, Cabinet Member for Housing and Homelessness and Cabinet Member for Finance and Resources) the following:
  - 2.1.1 An application for SHDF Wave 2 funding of up to £23.3m.
  - 2.1.2 The use of HRA revenue to fund additional Capital borrowing up to £99.0m as required, in addition to existing planned investment, making up the required match funding of £129.3m.
- 2.2 Delegates authority to the Strategic Director of City Housing to receive any awarded grant and take decisions as required regarding the identification of appropriate areas for delivery and profiling and tenure split of grant monies based on the proposals submitted to the Department of Business, Energy and Industrial Strategy (BEIS).
- 2.3 Delegates Authority to Strategic Director City Housing in conjunction with the Director of Council Management (or their delegate) to make further bids to SHDF or related government grant funding for the delivery of retro fit interventions.

- 2.4 Authorises the City Solicitor (or delegate) to negotiate, execute and complete all necessary legal documentation to give effect to the above recommendations.

### **3 Background**

- 3.1 Department of Business, Energy and Industrial Strategy (BEIS) has previously issued funding through the SHDF Demonstrator and SHDF Wave 1 and so far, 22,000 houses nationally have been retrofitted under these schemes. This funding stream is Wave 2.
- 3.2 The total national funding of £780m was announced in the 2021 Spending Review and the funding portal opened on 29<sup>th</sup> September 2022 with a deadline for applications of 18<sup>th</sup> November 2022. Guidance had been previously issued by BEIS and work has been undertaken over the summer to identify suitable properties.
- 3.3 The SHDF will upgrade a significant amount of the social housing stock currently below Energy Performance Certificate (EPC) C up to that standard. It will support the installation of energy performance measures in social homes, and help deliver warm, energy-efficient homes, reduce carbon emissions, tackle fuel poverty, support green jobs, develop the retrofit sector and improve the comfort, health and well-being of social housing tenants.
- 3.4 The aim of the SHDF Wave 2 is to meet one of the greatest challenges today of meeting the UK's 2050 Net Zero target of decarbonising the way buildings are heated. Most homes still rely on fossil fuel-based heating, are draughty and lack insulation making them inefficient and expensive to heat.
- 3.5 The funding aims to support the retrofit supply chain by only funding schemes of 100 houses or more. This will enable sub-contractors to invest in their businesses and give economies of scale to address the rising prices of materials and staff in this sector.
- 3.6 SHDF funding will start in April 2023 with the expectation that the work will be completed by September 2025.
- 3.7 The Birmingham bid initially aims to fund the retrofit of 2,231 homes in total. These are split into 9 different schemes, to be confirmed in terms of location, consisting of:
- Whole House Retrofit
  - High Rise Flats
  - Low Rise Flats
  - Solar PV and Fabric
  - Non-Traditional
  - Off Gas
  - Low Rise South
  - Medium Rise South

- High Rise South
- 3.8 Cabinet have already approved a grant application to SHDF for the 3 Cities Whole House Retrofit (Scheme 1) for the 300 houses in Bromford and this was approved on 26<sup>th</sup> July 2022.
- 3.9 The retrofit to be carried out on the other properties is more traditional and will consist of external wall insulation, cavity wall insulation, ventilation, loft insulation and double glazing.
- 3.10 The retrofit for each home is unique and each house is assessed prior to the work being designed. This ensures that the retrofit solutions will be effective.
- 3.11 Birmingham is applying for a grant from SHDF of up to £23.3m with a request for up to £129.3m match from the use of HRA revenue to fund additional Capital borrowing to enable delivery of eligible measures to social houses that qualify within the prescribed criteria:
- The main purpose scheme is to raise the energy efficiency rating of low Energy Performance Certificate (EPC) rated homes (those with EPCs of D, E, F or G) and must achieve an EPC C rating
  - Funding per property is capped depending on the EPC rating and the type of walls. The detail of this is in Appendix A.

#### **4 Options considered and Recommended Proposal**

- 4.1 Do Nothing - If the Council does not approve the application for SHDF Wave 2 and the corresponding match from the HRA this means a significant portion of Birmingham citizens are likely to remain in fuel poverty and poor energy efficient homes and would hinder our commitments regarding achieving route to zero carbon or would require Birmingham City Council to borrow the full amount, funded from the HRA.
- 4.2 Approve a bid to SHDF and corresponding HRA match funding – to enable the Council to utilise the identified funds to enable a significant portion of Birmingham citizens be brought out of fuel poverty and improve the energy efficiency of their homes. This has several health and welfare benefits for our residents.

#### **5 Consultation**

- 5.1 The Leader, has been consulted and is supportive of the contents of this report.

#### **6 Risk Management**

- 6.1 The WMCA will be the accountable body for receiving the funding and will commission Birmingham City Council to deliver the scheme. Equans and Fortem will be commissioned as part of their existing contracts to deliver the programme on time and to budget.
- 6.2 Risk will be managed by having a clear agreement with the contractors prior to grant award which lists requirements and damages for non-achievement of the programme.

- 6.3 Monthly review meetings will be undertaken with the contractors and project leads to ensure progress milestones are met.
- 6.4 WMCA will be notified if any issues arise which may affect delivery of the plans to time and to budget.

## **7 Compliance Issues**

### **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**

- 7.1 Birmingham is a bold green city in which to live. By reducing the use of fossil fuels and generating renewable energy, residents in the city will become 'cleaner' and 'greener' in their energy use. Birmingham is a city that takes a leading role in tackling climate change and this scheme will support the Council's ambition to be net zero by 2030 given a just transition.
- 7.2 Birmingham is a bold, healthy city and this scheme will improve the comfort and warmth of citizens by insulating their homes. Some homes will have mechanical ventilation added which will remove damp and mould and make the houses healthier to live in.
- 7.3 Birmingham is a bold, inclusive city in which 40% of people will be affected by the cost-of-living crisis. This scheme will increase the energy efficiency of homes and so they will cost less to heat, and this will address fuel poverty.

## **8. Legal Implications**

- 8.1 The council has a discretionary power to improve council houses under s.9 Housing Act 1985. Under S.111 Local Government Act 1972 the Council may do anything incidental to discharging its statutory functions.

## 9 Financial Implications

- 9.1 The bid will be for £23.3m, made up of £19.9m for works, £3.0m for administrative costs and £0.4m for digitalisation". This will require a HRA match contribution of £129.3m. Cabinet has previously approved £18.0m for the Whole House Retrofit (Scheme 1) and £12.2m for the work in High Rise blocks (Scheme 2). Therefore, requiring additional borrowing of £99.0m.

	# Properties	SHDF Grant attracted	Total HRA match funding	Existing approved HRA borrowing	Requested additional HRA borrowing to complete works
3 Cities Whole House Retrofit	300	£3.0m	<b>£18.0m</b>	£18.0m	
Identified further properties	1,931	£16.9m	<b>£111.0m</b>	£12.0m	£99.0m
Administrative overhead		£3m			
Digitisation allowance		£0.4m			
<b>Total</b>	<b>2,231</b>	<b>£23.3m</b>	<b>£129.0m</b>	<b>£30m</b>	<b>£99.0m</b>

- 9.2 The Birmingham HRA Business Plan has been replanned this year to maximise funding on the three primary corporate objectives of Fire and Building Standards, Decency Standards and Decarbonisation, alongside continued investment in development, repairs & maintenance and ongoing management of the estate, assets and other ongoing costs associated with running the social housing provision.
- 9.3 As modelled, repayment of this investment will be made over 30 years, and while the Interest Cover ratio drops below one for some individual years, this is funded by a reserve which will be built up in earlier years of the plan. As such, with current assumptions around cost and income growth, the bid is considered affordable in line with the Prudential Code. Due to the level of risk around current unknown income and expenditure levels, the paper is requesting approval to bid and borrow *up to* values which will be set by the S151 officer once a full value for money and affordability analysis has been carried out.
- 9.4 Current unknowns include levels of rent, which will be capped nationally and set locally next year, inflation levels and the state of the economy, the costs of repairs and maintenance works, and increasing salary costs. This adds an element of risk to the borrowing outlined to match fund the bid, which need to be carefully considered. The service are committed to reproduce the HRA Business Plan in 2023/24, by when the current unknown factors will be more certain. If these unknowns have a more positive financial impact than modelled, the positive balance will be put primarily to reducing the debt levels, and secondarily to bringing forward Decency investment plans. If the unknowns materialise as a negative impact, the service will reduce spending in the next iteration of the

business plan to ensure that the financial stability of the HRA is not compromised, while ensuring that the decision in this paper does not force future rents to be set at a specific level.

- 9.5 These reductions, if needed, will be met (in order of priority) through revenue efficiencies in operational teams, rephasing of the investment in Decency Standards and rephasing of debt repayment to ensure interest payments can be made. The latter two of these mitigations will only be used as emergency measures if there is an in-year deficit which cannot be met through reserve, to ensure the HRA remains financially balanced if risks materialise.
- 9.6 The bid provides value for money in that it allows the service to put a mix of grant funding and borrowing towards investment to meet the carbon neutrality target set by Council, freeing up further borrowing potential to invest in meeting legislative and Cabinet objectives of safe and decent homes standards. There are no alternative options currently available to progress decarbonisation targets at a lower cost. A higher bid would put too large a financial risk on the HRA and leave no room for income or cost variation, while a lower bid would leave the HRA needing to fund all carbon reduction work from debt, gearing the account beyond an acceptable financial level and leaving some of the borrowing unpaid at the end of the 30-year plan.
- 9.7 Technically, the average total investment of £58k per property can be derived from the numbers, although this takes account of all investment, including other complex works on several high rise blocks, which inflates the average, as High Rise works are complex and therefore expensive by their nature. The SHDF measures range from complex Hire Rise External Wall Insulation to very simple and cheap loft and cavity insulation upgrades, albeit these attract less grant funding. This blended approach was deliberate to ensure the supply chain is not overloaded, to ensure the project was deliverable in within the SHDF timescales.
- 9.8 The bid, and subsequent investment will further the work started by the Whole House Retrofit pilot, which has been used to confirm that the scale of work is deliverable, and funds will not be accepted, or borrowed, which are subsequently not used, at reputational and financial cost.
- 9.9 As per recommendation 2.1, if approved by Cabinet, the S151 officer will determine the final value of the bid following confirmation of affordability, to a maximum level of £23.3m

## **10 Procurement Implications**

- 10.1 The works for the Council's own stock will be delivered under the Housing Repair and Maintenance contract in accordance with its call-off arrangements by quadrant of the city.

## **11 Human Resources Implications (if required)**

None

## **12 Public Sector Equality Duty**

12.1 Initial Equality Impact Assessment submitted (EQUA952) - no adverse impact identified.

## **13 Appendices**

13.1 Appendix A - Details of funding and eligibility criteria

13.2 Appendix B – Equality Impact Assessment

13.3 Appendix C – Environment Sustainability Assessment