

STROUD DISTRICT COUNCIL

HOUSING COMMITTEE

14 SEPTEMBER 2021

Report Title	OPTIONS APPRAISAL – DECARBONISATION AND ENERGY EFFICIENCY OF COUNCIL HOUSING			
Purpose of Report	Following the adoption of the Tenant Services Energy Strategy in 2017 and the implementation of a programme of energy efficiency improvements across SDC housing stock, this paper presents further investment options for works over the next 8 years			
Decision(s)	The Committee RESOLVES to: a. Adopt Option 2, that by 2030 the average energy efficiency rating across all Council housing stock will be SAP C and; b. Request the Housing Committee Retrofit Task and Finish Group consider the necessary programme delivery requirements, including tenant consultation and resource scheduling, and report back to committee in December 2021			
Consultation and Feedback	Consultation consisted of:- <ul style="list-style-type: none">• Briefings with the Chair and Vice-Chair of Housing Committee• Briefings with members of SLT• Briefing with Alliance Leadership Team• Discussion with the Retrofit T&F Group• Presentation at the Housing Review Panel• Discussions with Finance• Discussions with the Head of Housing Services			
Report Author	Joe Gordon (Head of Contract Services) Tel: 01453 754190 Email: joe.gordon@stroud.gov.uk			
Options	Choose a preferred investment option to support the commitment to sustainably reinvest in homes			
Background Papers	N/A			
Appendices	Appendix A: CN2030 Housing Stock Carbon Reduction Options 2022 - 2030			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	Yes

1. Background

- 1.1 The Tenant Services Energy Strategy was adopted by Housing Committee in March 2017. The Strategy sets out its key aims, which are to:
- Relieve fuel poverty
 - Maximise carbon reduction in line with the Council's existing and future agreed targets.
- 1.2 The 2030 Strategy and supporting Masterplan sets out how the Council intends to begin to implement that pledge to help the district adapt to future climate change that will occur due to the level of CO2 already in the atmosphere.
- 1.3 Following the update of the Tenant Services Energy Strategy provided at the February 2021 Housing Committee, members requested a fully costed range of options which could help to support the Council's CN 2030 strategy.
- 1.4 The appended options appraisal provides a comprehensive set of information about the methodology used to collate the information, the effects of measures on property, as well as the cost of investment and efficiencies required to support various levels of investment.
- 1.5 A significant amount of the Council's resources is spent on its property. It is crucial, therefore, that we understand how this investment should be prioritised and what we expect to achieve as a result.
- 1.6 Stroud District Council already has a strong council house investment plan in place to improve energy efficiency and reduce carbon production. This includes an annual circa £3m multiple work stream programme delivering improvements to our homes. It includes:
- External wall insulation
 - Loft and Cavity Wall Insulation
 - New Roofs
 - New Windows

All of which are helping us to meet the challenges set within the CN 2030 Strategy.

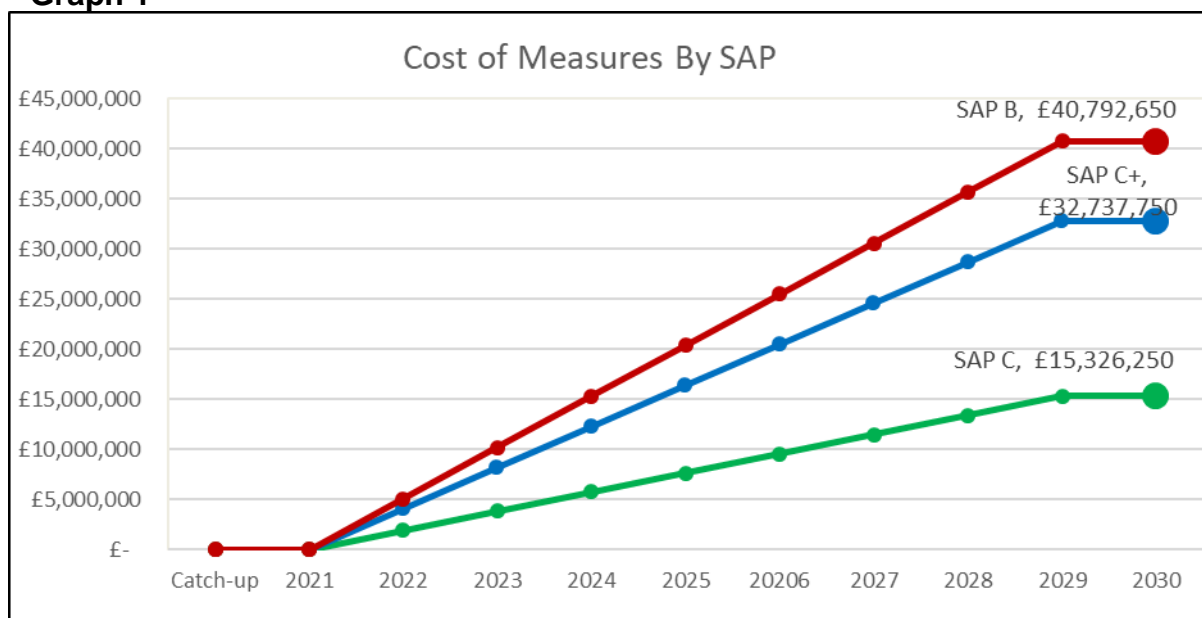
- 1.7 The options discussed in this report provide the opportunity to significantly improve the environmental impact of Stroud District Council's 5,000 properties, with Option 2 delivering a £180m decarbonisation and retrofit programme.

2. Options Appraisal

- 2.1 Using our existing property energy performance baseline as a point of reference, a comprehensive exercise was undertaken to evaluate the effects of past energy improvement measures. Through scenario modelling we have also evaluated the likely effects of undertaking supplementary works, such as replacing a gas boiler with a heat pump, or replacing conventional light bulbs with LED light bulbs, or adding various types of insulation to a property.

- 2.2 Since 2017 the average SAP rating of our properties has moved from the lower end of a Band “D” to the higher end of a Band “D”. The 2017 Energy Strategy aspires to achieve an average SAP across all stock to Band “C”.
- 2.3 The Standard Assessment Procedure (SAP) is the methodology used by the Government to assess and compare the energy and environmental performance of dwellings. SAP is rated on a scale of 0 to 100, the higher the rating number, the better the performance.
- 2.4 SAP calculation is the methodology behind the production of an Energy Performance Certificate (EPC), and is essentially a thorough list of calculations to judge the overall performance of a building. The EPC is the proof of those calculations.
- 2.5 Data validation provides accuracy, details, and clarity because it is necessary to eliminate issues before projects commence. By comparing data in our Keystone Asset Management System, and Intelligent Energy System, which we use for the collation of EPC recommendations, we were able to validate our findings, in terms of improvements to our previous baseline position, and what can be achieved within the different investment options.
- 2.6 Over the past two years we have invested circa £3million pounds per year in measures to improve the thermal efficiency of Council dwellings. With improved data collection and validation this investment is set to increase in 21/22 and 22/23.
- 2.7 Graph 1 below indicates the cost of measures to incrementally increase the thermal efficiency of properties. It should be noted that in all scenarios some properties will not reach the average SAP rating due to their construction.

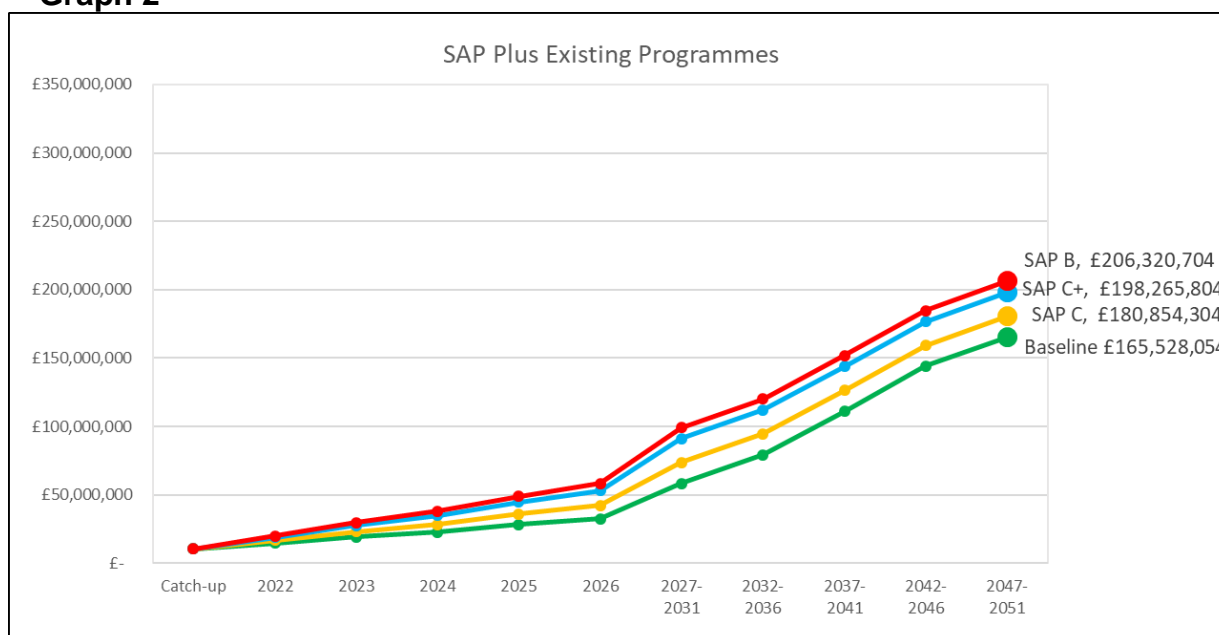
Graph 1



- Sap C Minimum 69 points (£15,326,250)
- SAP C+ Minimum 75 points (£32,737,750)
- SAP B Minimum 81 points (£40,792,650)

2.8 Graph 2 below indicates the cost of implementing measures to improve SAP rating along with the cost of investing in other improvements already identified.

Graph 2



- Current Programme (Baseline) £165,528,054
- Sap C Minimum 69 points (£180,854,304)
- SAP C+ Minimum 75 points (£198,265,804)
- SAP B Minimum 81 points (£206,320,704)

2.9 In total eight combined scenarios were modelled. Taking into account cost alongside impact on energy efficiency/carbon saving, four of these options (including our current investment programme) are deemed to be the most viable for further consideration. These set out with Graph 2. Modelling for all eight options is set out within the appended report CN2030 Housing Stock Options 2022 to 2030.

2.10 Table 1 provides an indication of the efficiencies which could be achieved against corporate objectives as set out in the CN 2030 Strategy and the Tenant Services Energy strategy. The table also gives indicative savings which could be achieved by tenants.

Table 1

SAP Rating Options	Carbon Reduction	Average Increase SAP	Cost per Sap Unit	Cost CO2 Tonnes Saved (per year)	Average Tenant Savings £
Option 2 - SAP C	24.5%	7.54	£1,957	£3,853	11.8%
Option 3 - SAP C+	31.4%	9.53	£2,336	£4,531	14.0
Option 4 - SAP B	37.7%	12.01	£2,527	£5,149	17.4%

3. Funding Options

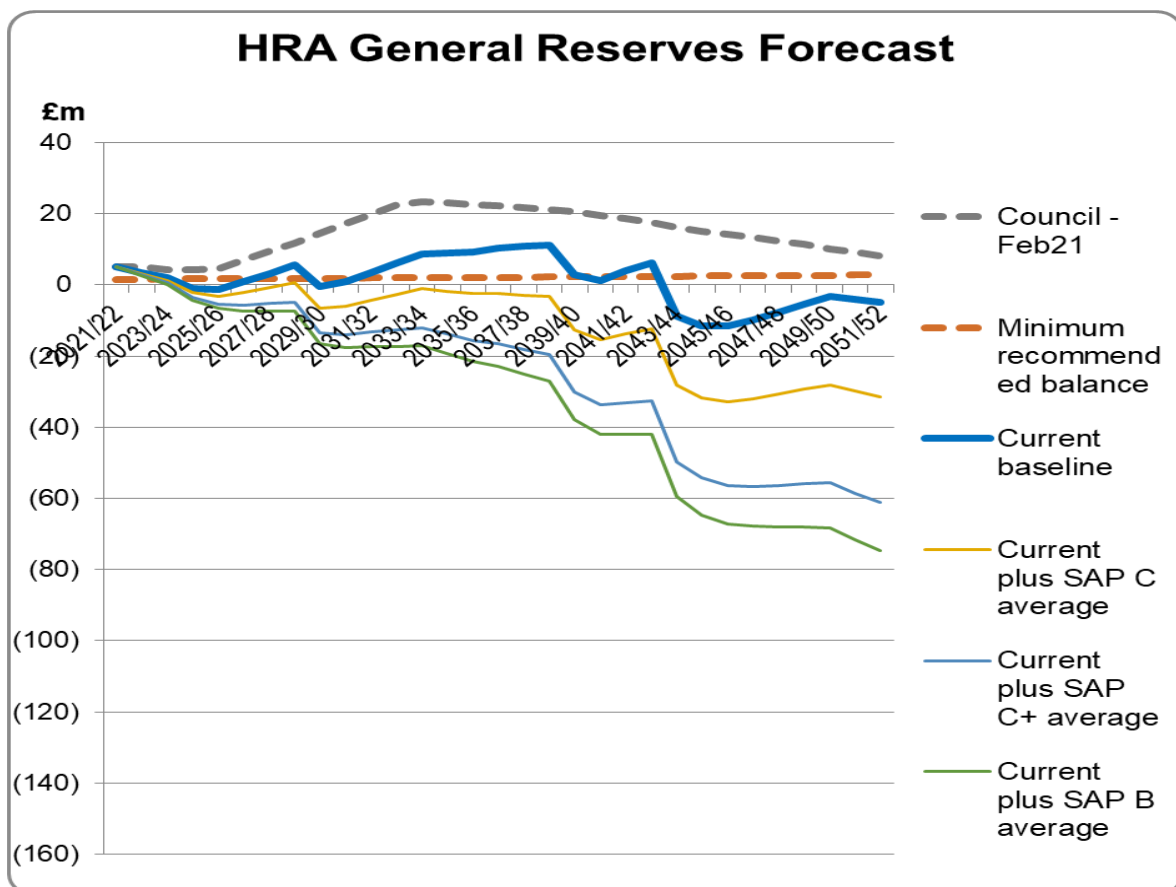
3.1 Financing upgrading works will be challenging and the costs and benefits need to be more visible through the establishment of a solid evidence base that can be referred to. Table 2 below sets out the cost of improvement works along with the anticipated efficiencies that would be required to fund them.

Table 2

Funding Scenarios	Additional borrowing (over 7 years)	Annual Savings needed (indicative amount)
Option 1 - Current Programme (baseline)		£0.2m
Option 2 - Current plus SAP C average	£18m	£0.9m
Option 3 - Current plus SAP C+ average	£38m	£1.6m
Option 4 - Current plus SAP B average	£47m	£1.9m

3.2 Graph 3 below shows the estimated future reserves for each of the options.

Graph 3



- 3.3 The updated 'current baseline' shows higher cost than were previously included and pushes the HRA into a negative balance as early as 2024/25.
- 3.4 All have assumed borrowing is for 7 years only, with repayments over 30 years (annuity basis – starting off smaller and increasing year on year). Other borrowing options are available.
- 3.5 Interest has been included at 3%. However, it should be noted it is currently lower than this, but could be higher than this by the time we take the borrowing due to uncertainty in the current economic climate (the 'reduced' rate when self-financing loans were taken out was 3.5%).
- 3.6 Some of the options that could be considered to support the funding of these works include but are not limited to:
- Reduce capital spend (reduce capital replacements eg kitchens/bathrooms)
 - Extending component life cycle (consideration would need to be given to Decent Homes 2)
 - Charge higher rents on new build/relet
 - Charge full service charges to all general needs tenants eg grounds maintenance charges
- 3.7 Consideration will need to be given to the diminishing returns on any investment.

4.0 Next Steps

- 4.1 In line with our commitments outlined within the Energy Strategy we have, and are pursuing all viable opportunities to maximise funding through the pursuit of grants, and partnership working.
- 4.2 Along with our partners we were successful with a bid to the Department for Business, Energy, and Industrial Strategy (BEIS) for The Social Housing Decarbonisation Fund Demonstrator. The grant funding will allow us to go further in terms of energy improvement than would have been viable through traditional funding methods.
- 4.3 We have engaged with a number of leading manufacturers and are in advanced negotiations to pilot a range of new and innovative technologies. By doing this we hope to be able to demonstrate how we can work with partners to overcome the innovation barriers and target investment for those households in most need.
- 4.4 The Energy Strategy outcomes were based on known technological requirements and funding at the time of inception. However much has changed since then, including the resetting of our own organisational and government targets.
- 4.5 The work undertaken to date and the additional investment made in the Intelligent Energy Module underpins the work previously done, but crucially now provides a visible plan for each home.

5.0 Conclusion

- 5.1 It is clear that the options to retrofit are challenging for the organisation both in financial and current resource limitations. These challenges are not insurmountable however they do have risks and implications that must be considered.
- 5.2 Investment needs to be based on sound financial footings. We need to continue to invest prudently, and sustainably over the longer term, as there are still as yet un-costed investment needs which may arise from the housing white paper.
- 5.3 We need to respond to changing demand, by agreeing future investment priorities with our tenants. Changing regulations, by adapting to the needs of the Regulator of Social Housing, and changing aspirations, of future tenants. All in a way that ensures the viability of the HRA.

6.0 Recommendation

- 6.1 Any decision to be made by Housing Committee will need to be balanced between the required outcomes and level of risk Committee is willing to accept at this time. A balanced approach will need to be adopted, to ensure we can continue to sustainably reinvest in homes.
- 6.2 It is recommended that Option 2, an average of SAP C cross the Council's housing is stock, is adopted. This is ambitious and reflects a robust commitment to the challenges of climate change.,
- 6.3 While ambitious it is sustainable and allows the organisation to build on a sound financial footing, while also providing scope to take advantages of any new funding or grant incentives and changing/improved technologies. It is in line with the commitment as set out in the Tenants Services Energy Strategy and is within our 30 year forecast and commitment within the HRA.
- 6.3 It is important that the position is reviewed every two years which will give the Council an opportunity to consider technological advancements in the renewables sector, and the ability to consider additional developing funding opportunities which could support additional Work streams beyond any commitment.

7.0 IMPLICATIONS

7.1 Financial Implications

This report sets out the expected cost of each of the options in Section 2. Table 2 (following paragraph 3.1) sets out the expected new borrowing that would be required in the HRA to fund the expenditure, along with an indicative annual savings that would be required to fund the borrowing (interest payments and capital repayment) and the change in baseline costs.

The recommended option - Option 2 - an average SAP Rating C, would entail estimated new borrowing of approximately £18million over 7 years, and based on a 30 year repayment would require savings of £900k to be found from the HRA against the current Medium Term Financial Plan (MTFP).

In order to achieve a balanced budget over the medium and long term, these savings (or additional income) would need to be identified and included in the budget proposals agreed by Housing Committee in December and recommended for approval by Council in February. The savings would not need to be achieved immediately, but could be phased in over the MTFP period allowing a period of change. It should be noted that the indicative amount of £900k may change during the budget setting process following the approval of a revised Budget Strategy by Strategy and Resources in September, and as further changes are identified and included the proposed budget.

Section 6 of this report also recommends that the position is reviewed every two years. This would regularly update the financial position and allow members to review the affordability of the options available. Should additional cost savings or new funding be made available, members could then choose to increase the level of works being undertaken.

Lucy Clothier, Accountancy Manager
Email: lucy.clothier@stroud.gov.uk

7.2 Legal Implications

There are no direct legal implications arising at this stage but as the strategy develops legal advice should be sought on:

- the terms and conditions of grant agreements, partnership agreements and, in respect of works contracts, compliance with procurement legislation
- The terms and conditions relating to property agreements including any impact arising due to works being carried out to the Council's Housing stock and where tenants subsequently exercise their right to buy their house.

One Legal

Tel: 01684 272691 Email: legalservices@onelegal.org.uk

7.3 Equality Implications

7.3.1 An EqlA has been carried out by Officers in relation to the decision made in this report and no equality implications arise.

7.4 Environmental Implications

7.4.1 Key documents and policy which will influence our approach going forward include but not limited to:

- CN2030 Strategy
- Tenant Services Energy Strategy

- Non Traditional Homes Strategy
- The Future Homes Standard
- The charter for social housing residents (Social Housing White Paper)
- The Housing and Regeneration Act 2008
- Clean Growth Strategy
- Committee on Climate Change (December 2020) The UK's Path to Net Zero