

CABINET

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| DATE OF MEETING: | 3 March 2022 |
| TITLE OF REPORT: | Housing capital funding for energy efficiency measures in new affordable housing |
| Report of: | Head of Community |
| Cabinet Portfolio: | Community |
| Key Decision | No |
| Confidentiality | Non Exempt |

1 PURPOSE OF REPORT

- 1.1 This report sets out a proposal to ringfence a proportion of the Council's housing capital funds to support Registered Provider's (housing associations) to provide additional energy efficiency measures in their new affordable homes.

2 OFFICER RECOMMENDATION

- 2.1 For Cabinet to approve a scheme to install additional energy efficiency measures in new build housing association affordable housing that will bring energy efficiency beyond the current building regulation standards.
- 2.2 That £250k of housing capital funds are ring-fenced up to March 2025 for this purpose, at which time the scheme will be reviewed.
- 2.3 Specific sites will be brought to Cabinet to approve the spend.

3 BACKGROUND

- 3.1 The Council has circa £12m capital funding to support the provision of affordable housing within the district. Within this there is circa £3.5m from right to buy receipts; this proposal seeks that £250k of this is ringfenced for use for energy efficiency measures in new affordable homes.
- 3.2 The Council has funded several projects over the last 5 years ranging from top-up funding to reduce the rent levels for 4 bed affordable homes, funding to provide affordable homes at a Social Rent rather than an Affordable Rent level (Jean Orr Court) and most recently £325k to fund a joint project with VIVID to purchase a bungalow for a disabled resident. Amounts funded range from £57k to £360k.
- 3.3 The Strategy and Development Team have been exploring how to bring forward suitable projects to which these funds could be applied to deliver affordable housing projects in the district for the benefit of local residents. The decision was taken to bring this paper forward first to seek Cabinet support for the proposal prior to officers working with housing associations

on bringing forward specific sites for approval. Officers need to know that Members wish time and resources to be committed to this project before taking further steps. Other proposals will be discussed and prioritised with the Overview and Scrutiny Task and Finish Group and brought forward when appropriate to do so.

- 3.4 This paper outlines a proposal for the Council to provide top-up funding to new affordable housing schemes for additional energy efficiency standards and measures to be included in the new build homes. The primary driver is to be a positive contribution to addressing climate change issues and the Council's climate targets. However, the additional energy efficiency measures will also reduce energy bills helping with the affordability of energy bills for people on limited incomes. This is increasingly important considering rising energy bills.
- 3.5 This funding will help to encourage higher energy efficiency standards in affordable homes from the date of the decision. It will enable Hart to get ahead of the game, providing the authority with a good opportunity to learn from these sites before the requirements are mandatory. From 2025 new homes will be required to meet the Future Homes Standard (FHS) and have 75-80% lower carbon emissions than current standards and all homes will need to be "zero carbon ready" becoming zero carbon homes over time without the need for costly retrofitting.

4 MAIN ISSUES

- 4.1 At full Council on 29th April 2021 councillors declared a Climate Emergency and committed to becoming a carbon neutral authority by 2035 and a carbon neutral district by 2040. This was following the adoption of Hart's Climate Change Action Plan in 2020.
- 4.2 It is vitally important that affordable homes should not be precluded from providing additional energy efficiency measures due to cost and as such local authorities can consider how they can enable affordable, energy efficient homes in its area. This proposal will help the Council in working towards achieving this and its actions in the Climate Change Action Plan.
- 4.3 In terms of the national picture, in January 2021, the Government published the Future Homes Standard 2025 which gives targets for reducing carbon emissions in homes.
- 4.4 At present, Homes England funding supports the provision of a range of different affordable housing products, but not energy efficiency measures specifically. With limited funding available, this can make including these technologies in affordable housing difficult to achieve.
- 4.5 It is important to note that not all affordable housing sites will be appropriate for this proposal, and where an RP or housing association own the site or are developing the site themselves generally speaking there is more scope to include additional features.

- 4.6 The Council has a ringfenced capital fund to enable the delivery of affordable housing projects. By providing top-up funding to some of the new affordable homes the Council can enable the housing associations to provide additional energy efficiency measures on their properties including solar panels and air source heat pumps, for example. In some cases, there may be opportunities to provide Passivhaus standard homes. These are highly insulated homes and use very little energy for heating. The energy efficiency features will vary from site to site depending on several factors and it is proposed that each proposal is assessed on a case-by-case basis against set criteria. Further details of this are included with this paper.
- 4.7 This proposal provides an excellent opportunity for the Council to support a pilot scheme and to use it as a learning opportunity. Homes delivered with higher energy efficiency measures through the funding will be used to help provide evidence and develop future policy to raise energy efficiency measures of all new-builds across the district. Findings and observations will be shared with colleagues in housing and planning across Hampshire through the Housing Enablers Network and used to inform technical advice notes and planning advice.
- 4.8 It is important to note that Government funding is available to housing associations to improve the energy efficiency of their existing housing stock. Similar funding is not currently available for new affordable homes.
- 4.9 An additional important consideration is that carbon emission from domestic properties is the second biggest source of carbon emission in Hart, and one of the hardest to decarbonise. Funding additional energy efficiency measures will ensure that the homes that benefit from the funding will help to meet Hart's 2040 net zero goal.

5 OVERVIEW AND SCRUTINY DISCUSSION

- 5.1 This paper was brought before Overview and Scrutiny in November 2021 and again in January 2022, because officers were asked for more information. At the January meeting, the Committee resolved that it could not recommend to Cabinet that it approved the officer recommendations. The committee felt that there were a number of gaps in the project (these are identified below.)
- 5.2 The issues that Overview and Scrutiny Committee raised with the report and its proposals are noted below:
- Delegated powers for decision – members of Overview and Scrutiny felt this was too open. In this report, officers are not seeking delegated powers but instead are recommending that specific schemes are brought back through Cabinet.
 - Scheme costs – members of Overview and Scrutiny felt that the overall ringfenced funding required was too much. This paper asks for a reduced funding envelope; seeking that a smaller proportion of the housing capital funds are ringfenced for this scheme. Funding requested has been reduced from £550k to £250k.

- More information on potential energy cost savings for occupants was required – officers from Community Services have worked with the Councils Sustainability Officer to produce some detailed costings (set out in section 6 of this report).
- Insufficient detail on the assessment criteria for funding allocation – an assessment process is in place and a detailed application form will be used by housing associations seeking funding under the scheme.

5.3 The Portfolio Holder for Community is keen to bring the report to Cabinet for consideration. The project has a number of key elements that he believes Cabinet will support. These include:

- The positive impact on tackling climate change.
- Facilitating residents on limited incomes living in homes that will be cheaper to run and heat.
- Supporting housing associations to use new and innovative methods to build energy efficient affordable housing and to learn from this to roll out to other affordable homes in Hart.
- Creating a model that sets an example for other local authorities, housing associations and developers.
- Providing Hart and others with first-hand experience and data on developing energy efficient homes and what its actually like to live in them through comments received through Hart’s new resident surveys.

6. Energy Efficiency Considerations

Overview and Scrutiny requested more detail on potential savings for residents living in these homes. The table below shows indicative figures based on estimates of fuel usage and potential annual savings.

| | Energy Efficiency standards/measures per year for average 3 bed property | % Reduction in Energy Cost over EPC B | Total Saving Per Year | Total Emission (1 st year) kgCO ₂ e | Emission Reduction (1 st year) kgCO ₂ e |
|---|--|---------------------------------------|-----------------------|---|---|
| 1 | Current building Regulations new build EPC B | - | - | 2837.9 | - |
| 2 | Current building regulations new build EPC A | 6.54 | £117.60 | 2650.6 | 187.3 |
| 3 | Passivhaus | 15.42 | £277.20 | 1932 | 905.9 |
| 4 | Solar Panels (3.5kW)* | - | £408.00 | - | 693.36 |

*Solar PV does not elevate fuel poverty as it does not contribute to maintaining an adequate standard of warmth in the property. Properties are considered to be heated via gas.

7. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 7.1 Officers will be bringing forward several other proposals for spending the Housing Capital Fund. A Task and Finish Group has been set up with Overview and Scrutiny Councillors which will explore these proposals in more detail.
- 7.2 In relation to this proposal, the Council could decide not to ringfence any funding for energy efficiency methods and use it to prioritise other projects. This could mean that new affordable homes are continued to be developed, but without any additional energy efficiency measures, or with some features but not making the most of the opportunity available. This will be a missed opportunity to deliver a pilot project focussed on energy efficiency, to inform future policy help people to reduce their energy bills and to meet Hart's climate change aims.

8 CORPORATE GOVERNANCE CONSIDERATIONS

- 8.1 **Relevance to the Corporate Plan and/or The Hart Vision 2040**
This proposal supports several of the priorities set out in Hart's Corporate Plan 2017-22. These include "A Clean, Green and Safe Environment" - to improve energy efficiency, and "Healthy Communities and People" - ensure access to affordable housing.
- 8.2 Also, Hart Vision 2040 - "Technological advances may be making even greater differences to the way we work and live as communities", and "Reducing the impact of climate change by building in sustainability and using new technologies to mitigate the impact of climate change"

8.3 Service Plan

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| Is the proposal identified in the Service Plan? | No |
| Is the proposal being funded from current budgets? | Yes |
| Have staffing resources already been identified and set aside for this proposal? | Yes |

8.4 **Legal and Constitutional Issues**

There are no legal or constitutional issues arising from this report. If the proposal is agreed by Cabinet, the Council will engage Legal Services to ensure there is a legal agreement in place between them and the relevant Registered Provider, for the delivery of energy efficiency measures in exchange for funding.

8.5 **Financial and Resource Implications**

To support the provision of additional energy efficiency measures in new affordable homes it is requested that £250k of housing capital receipts is ringfenced up to March 2025 for this purpose. This has been included in the draft capital housing budget for 2022-23, subject to the outcome of the committee's decision.

8.6 The funding can be drawn from the Right to Buy receipts. There are no specific restrictions on the use of these funds.

8.7 On average, a Passivhaus or affordable home with several additional energy efficiency measures is estimated to require in the region of £10k per unit more grant funding than a traditionally built property. This is expected to vary very slightly from site to site depending on site specific restrictions and requirements. Build costs will also vary depending on availability of materials and skills. We have seen recently that costs have increased due to a shortage of certain materials and skills for most sites currently being built.

8.8 Therefore, it is proposed that the requested amount should enable a pilot site to be able to access the funding and this will provide the Council with the opportunity to review the effectiveness of the funding and the outcomes. If appropriate sites do not come forward the ringfenced funding will not be spent and can be used elsewhere from 1st April 2025.

8.9 The individual considerations, costs and aspects will vary from site to site as the property type, size, site etc will vary considerably from site to site. The cost of building materials may also change from time to time.

8.10 Recommendations will be made by the Head of Community and Portfolio Holder for Community to Cabinet to determine whether the funding request is approved.

8.11 There are no implications for additional resources or staffing to support this proposal

8.12 **Risk Management**

Possible risks Associated with not agreeing the project:

- Affordable housing providers will not be able to provide any (or many) additional energy efficiency measures in new affordable homes as they are too expensive and Homes England grant will not cover the full costs of including them.

- The Council does not meet its carbon reduction targets.
- Future opportunities to support schemes may be few and far between and the Council misses the opportunity to support innovative and forward-thinking designs to help reduce carbon emissions in new affordable homes.
- Residents living in the new affordable homes are faced with rising energy bills but limited incomes and problems with affordability of new homes arise.

8.13 Possible risks to be managed if the project goes ahead:

8.14 If the Council agrees to fund a pilot scheme there is a risk that no sites will come forward in the timeframe. If this happens the money can be used to fund other projects.

8.15 The Council could fund a pilot scheme and find that it does not deliver the energy savings expected. This is unlikely as there is well founded researched detailing the tested energy savings from different measures. Also, any findings, positive or negative would be used as a basis for learning and developing appropriate policies across the district.

8.16 There is a risk that the ringfenced amount is insufficient to fund more than one site. Possible sites will be brought forward to cabinet on a site-by-site basis. The associated report would identify the remaining balance of the ringfenced funds.

8.17 There is a risk that costs to implement the additional measures will increase as costs for developments are increasing at present and there is a shortage of some materials which may impact on the scheme development costs. If this were to occur the housing association would be required to provide officers and Members with the information relating to any increased costs and the reasons for this to be scrutinised.

8.18 There is a risk that costs to implement the additional measures will increase as costs for developments are increasing at present and there is a shortage of some materials which may impact on the scheme development costs. If this were to occur the housing association would be required to provide officers and Members with the information relating to any increased costs and the reasons for this to be scrutinised.

9. EQUALITIES

- 9.1 This funding will support the delivery of new, affordable housing which can be accessed by a wide range of people of different race, disability, gender, ages, sexual orientation, pregnancy, religion and belief, from the Council's housing register and the Help to Buy register.
- 9.2 It would also support the provision of affordable housing for people on low incomes who would benefit from more affordable energy bills in the long term.

10 CLIMATE CHANGE IMPLICATIONS

- 10.1 This proposal has direct implications for reducing carbon emissions in the construction and occupation of new affordable homes arising from the recommendations.
- 10.2 The funding requested would be to enable the delivery of affordable homes with additional energy efficiency measures including, but not limited to, heat pumps, photo voltaic panels, improved airtightness measures with Mechanical Ventilation and Heat Recovery, and some affordable homes built to passivhaus standards which significantly reduce the amount of carbon they use and generate. Furthermore, it contributes directly to the Council's Climate Change Action Plan, adopted in 2020.
- 10.3 By building properties that will meet the requirement for Hart to be a net carbon neutral authority by 2040, now will ensure these properties will not need to be retrofitted later to meet this target.

11 RECOMMENDATION

- 11.1 That Cabinet approves this proposal to ringfence £250k up to 31st March 2025 for housing associations to provide additional energy efficiency measures to their new build affordable homes as a pilot scheme and that any potential sites will be brought to committee for approval on a site-by-site basis.

Contact Details:

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Appendices N/A

**Add rows as required to box below*

| Ref. | Title of Appendix | Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule of the Local Government Act 1972 by ticking the relevant</i> | | | | | | |
|------|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| A | Useful Terms | | | | | | | |
| B | Passivhaus – Costs and Benefits Report (link) | | | | | | | |

Background papers:

**Add rows as required to box below*

*Please list all unpublished, background papers relevant to the decision in the table below. Background papers are **unpublished** works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.*

| Title of any background paper(s) | Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i> | | | | | | |
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| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| N/A | | | | | | | |
| N/A | | | | | | | |

Appendix A -

Useful Terms

- **Carbon neutral** means that any CO₂ released into the atmosphere from a company's activities is balanced by an equivalent amount being removed.
- **Climate positive** means that activity goes beyond achieving net-zero carbon emissions to create an environmental benefit by removing additional carbon dioxide from the atmosphere.
- **Carbon negative** means the same thing as 'climate positive'.
- **Carbon positive** is how organisations describe climate positive and carbon negative.
- **Net-Zero carbon emissions** mean that an activity releases net-zero carbon emissions into the atmosphere.
- **Net-Zero emissions** - balance the whole amount of greenhouse gas (GHG) released and the amount removed from the atmosphere.
- **Embodied carbon** is the carbon dioxide emissions associated with making a building that comes from extraction, transportation and manufacturing of raw building materials is a significant part of a building's life cycle. Embodied carbon will be responsible for almost half of total new construction emissions between now and 2050.
- **Zero carbon building** - built-into the building's construction and use.
- **Passivhaus** - a building with an airtight envelope. It literally means 'passive house'. It is a voluntary standard for energy efficiency in a building, which includes highly energy efficient design which reduces the building's ecological footprint and provides very low-energy buildings that need very little fuel.
- **The Future Buildings Standard** - a government consultation carried out from 18 Jan 2021 to 13 April 2021. The outcomes of the consultation are due to be published. It sets out proposals for a Future Buildings Standard, which provides a pathway to highly efficient non-domestic buildings which are zero carbon ready, better for the environment and fit for the future.
- **AECB standard** - this standard is aimed at those wishing to create high-performance, low-carbon buildings using widely available technology.
- **NPPF** - National Planning Policy Framework.
- **PV panels** - also known as solar panels, capture the sun's energy and convert it into electricity.
- **Mechanical ventilation** - is used to control indoor air quality, excess humidity and odours.
- **Registered Provider** – Sometimes used to refer to housing associations, but RP's can be "non-profit" or "for-profit". The operating rules and regulations vary depending on whether an RP is a "for profit" or "non-profit" organisation.
- **Housing association** - Most non-profit providers are also known as housing associations

Appendix B -

What is Passivhaus?

One form of design to deliver more highly energy efficient housing is known as Passivhaus. Passivhaus literally means “passive house”. It is a voluntary standard for energy efficiency in a building, which includes highly energy efficient design which reduces the building’s ecological footprint and provides very low-energy buildings that need very little fuel. Other stock-holding local authorities including Reading and Winchester are building their new affordable homes to Passivhaus standard as the many benefits are widely accepted and understood.

- A Passivhaus property has an airtight building envelope, and can include triple glazed windows, mechanical heat ventilation and overhangs for shading.
- The homes are highly insulated and use very little energy for heating.
- They are currently more expensive to build which can take them out of reach as affordable housing.
- Passivhaus principles and technology play a key role in achieving zero carbon for the future.
- This is a fabric first approach which means that the energy efficiency is built into the property itself not just features added on to the building - like photovoltaic panels (PV) on the roof.
- Homes can be Passivhaus or partial Passivhaus - this depends on design and scheme.
- Larger, simple designs perform better in terms of passivhaus than smaller or more complicated shapes.
- The buildings aim to use design to achieve the most energy efficient outcomes, for example, south facing windows, airtight building, can and should open windows, pre-heating in-coming fresh air, mechanical ventilation.
- As technology and systems are more widely available costs will reduce over time.

The NEW Passivhaus Benefits Guide forms part of the Passivhaus Trust’s wider [cost-benefits research](#). The research has identified almost fifty types of benefits relating to Passivhaus. A link to the summary report is provided below.

<https://www.passivhaustrust.org.uk/news/detail/?nId=1043>