

The North Yorkshire Council

Executive

7 January 2025

Request to accept the grant funding for Warm Homes Social Housing Decarbonisation Grant (Wave 3)

Report of the Corporate Director Community Development

1.0 Purpose of Report

- 1.1 To recommend that the Executive authorises the acceptance of the grant funding from the Warm Homes: Social Housing Fund Wave 3 up to £34,345,588 and approves NYC match funding up to £28,945,587.

2.0 Background

- 2.1 Government has provided competitive funding to improve the energy performance of social rented homes, on the pathway to Net Zero 2050. The Warm Homes: Social Housing Fund Wave 3 (formerly known as Social Housing Decarbonisation Fund Wave 3), aims to deliver warm, energy-efficient homes, reduce carbon emissions and fuel bills, tackle fuel poverty, and support green jobs. Warm Homes: Social Housing Fund follows earlier waves of the programme, which were the Social Housing Decarbonisation Fund demonstrator funding, wave 1, wave 2.1, and wave 2.2. Warm Homes Social Housing Fund builds on previous rounds of funding and will support housing providers to install energy efficiency upgrades and low-carbon heating measures in homes in England.
- 2.2 NYC bid for the Warm Homes: Social Housing Fund on 25 November 2024 following the approval from the Corporate Director Of Resources. The bid was for £34,345,588.00 in grant funding and the council is required to contribute £28,945,587.00 in match funding. NYC is awaiting notification by the Department for Energy Security and Net Zero (DESNZ) that the bid has been successful. The bid must be accepted by NYC within 14 days of the offer.
- 2.3 An internal Housing Retrofit Board is in place to review and coordinate activities. This is chaired by the Corporate Director of Community Development and will include the Warm Homes: Social Housing Fund programme delivery.
- 2.4 The Warm Homes: Social Housing Fund programme will be delivered by the Housing Service, led by the Housing Standards Manager for Improvements.

3.0 Report

- 3.1 The Warm Homes: Social Housing Fund wave 3 fund was launched in late September, with application forms being available from 2 October 2024. The application window closed at midday on 25 November 2024.
- 3.2 Successful applications will be notified by DESNZ from early 2025. All grant funding is to be transferred to grant recipients and spent by 31 March 2028. The delivery window ends 30 September 2028. Projects can use only match funding, which is provided by NYC, in the final 6 months of delivery.

- 3.3 A bid for £34,345,588 was made as part of a £63,291,175 programme to retrofit 2,700 properties over the next three years to a minimum Energy Performance Certificate (EPC) C standard. This supports the Council's ambition to improve 4,500 homes to EPC C within the next 5 years.
- 3.4 The timeline for accepting the grant and returning the documentation does not align with the Council's usual decision-making and approval processes. Therefore, this report seeks agreement to accept funding up to the maximum potential amount, and the maximum potential amount of match funding, with authority delegated to the Corporate Director Resources, in consultation with the Corporate Director Community Development.
- 3.5 The programme will fund the following measures:
- Loft insulation
 - Internal wall insulation for solid wall properties
 - Cavity wall insulation
 - Under-floor insulation – suspended floors
 - Air source heating
 - Low energy lighting
 - Solar Photovoltaic (PV).
- 3.6 Properties will be treated on a case-by-case basis and appropriate measures will be installed to meet the requirements to achieve an EPC C rating. Retrofit surveys will be carried out to determine the specific measures required for a property.
- 3.7 To accept the grant, NYC is required to sign and return a Grant Offer Letter (GOL), Grant Funding Agreement (GFA) and a Data Sharing Agreement (DSA) so DESNZ can issue grant payments under Section 98 of the Natural Environment and Rural Communities Act 2006 within 14 days of the offer.

4.0 Consultation

- 4.1 Internal consultation has taken place through the Retrofit Board, which is a cross-directorate group to ensure officer engagement.

5.0 Contribution to Council Priorities

- 5.1 Council Plan: Place and Environment - Good quality, affordable, and sustainable housing that meets the needs of our communities and Organisation - A carbon-neutral council
- 5.2 North Yorkshire Council Climate Change Strategy: Mitigation 7(a)(i) Retrofit commercial, community, and residential properties and assets using a 'fabric first' approach.

6.0 Alternative Options Considered

- 6.1 Not to bid: this was rejected as the Warm Homes: Social Housing Fund supports investment in the Council's housing stock with associated co-benefits of alleviating fuel poverty, improving public health, and supporting low carbon economic transition.
- 6.2 To bid as part of a consortium: this was rejected as previous applicants cannot reapply. The suggested approach to bid as an individual organisation ensures that the Council will retain full oversight and control of the project in the local area.

6.3 To bid for more or less funding: This was rejected. Up to 2,700 properties over three years is felt to be challenging whilst being realistic in relation to capacity to deliver the number of homes. In addition, it was felt that there needed to be the right balance between maximising the available grant, which in turn will reduce the need for full investment by the Housing Revenue Account alone, and affordability within the financial plan. There is further explanation as to how this is measured within the financial implications.

7.0 Financial Implications

7.1 The application requires at least 50% of total eligible costs to be provided by the applicant in the form of match funding (excluding the 10% Low Carbon Heating Incentive). One-third of the grant should be spent in each financial year from FY25/26 to FY27/28. All grant funding for Warm Homes: Social Housing Fund wave 3 must be spent by 31st March 2028, and within the financial year the grant funding was allocated. Match funding can be used in the final 6 months of delivery up until 30 September 2028.

7.2 It has been assumed that the budget allocation to support the Warm Homes: Social Housing Fund is in addition to the current capital plan, and therefore no funding has been diverted from existing priority programmes, including standard decent homes improvements, compliance work and delivery of 500+ new homes. This funding wave provides an opportunity to access up to £34.345,588 towards works that would otherwise be borne in entirety by the Housing Revenue Account to meet the required EPC standards. This would not be affordable and would require phasing well beyond 2030.

7.3 Scheme Funding Summary:

The table below sets out the funding required in relation to this application:

	No. Homes	Grant Cost Cap (£'000)	Total grant funding (£'000)	Total match funding (£'000)	Total Budget (£'000)
10% low carbon Heating Incentive	270	20	5,400		5,400
Off gas Homes	851	15	12,758	12,758	25,515
On Gas Homes	1,580	8	11,846	11,846	23,693
	2700		£30,004	£24,604	£54,608
Admin and Ancillary			£4,343	£4,342	£8,684
Total			£34,346	£28,946	£63,292

7.4 Subject to approval, the Council's match funding will be incorporated into the Housing Revenue Account capital plan and 30-year business plan. To ensure the programme is affordable the costs have been modelled within the 30-year financial plan and tested against the Housing Revenue Account's four key financial metrics (see Appendix A). This shows a combination of funding will be required to maintain minimum working balances and debt affordability ratios. It is forecast that there will be an internal borrowing requirement of £13m, which will be repaid in tranches by 2032/33.

Assumed Capital Funding:

The table below sets out how the capital expenditure related to this scheme would be funded.

Funding Source	£m
Major Repairs Reserve	8.8
Internal Borrowing	13.0
Working Balances	7.2
Total	29.0

Assumed Debt and Repayment profile:

The table below sets out the phasing of the required internal borrowing from the General Fund to the Housing Revenue Account and the phasing of its repayment.

	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Warm Homes							
Wave 3	£m	£m	£m	£m	£m	£m	£m
Borrowing	5.00	8.00	-	-	-	-	-
Repayment	-	-	(2.50)	(2.50)	(3.00)	(3.00)	(2.00)
Balance	5.00	13.00	10.50	8.00	5.00	2.00	0.00

7.5 Impact on metrics:

As noted in 7.4 above, the additional Council investment to match fund the programme has been modelled within the Housing Revenue Account business plan, to support the view on affordability, utilising the four key metrics (see Appendix A for details of the metrics following the addition of this programme). These calculations have been prepared on the assumption that the allowable rent increase of CPI+1% (2.7%) will be applied in 2025/26. A decision to increase rents below this level would result in forecast working balances falling below the minimum threshold. This in turn would result in an increased borrowing requirement and further constrain the capacity to deliver new projects above and beyond those already included within the plan.

An explanation of the effect on the metrics of this programme is provided below:

Operating Margin

Operating margin is a measure of operating efficiency within the Housing Revenue Account's revenue budget. This measure is unaffected by increased capital spending and borrowing, as debt servicing falls outside operating costs.

Interest Cover

Interest cover is a measure to demonstrate the Housing Revenue Account's ability to service debt interest. Modelling shows that with the addition of £13m borrowing and associated income, interest cover is maintained above 2.5 versus a minimum threshold of 2. It is also worth noting the Council set its minimum threshold above an industry norm of 1.25 – 1.5.

Borrowing Capacity

This chart sets out borrowing limits within the Housing Revenue Account, which is calculated as 4 times gross income. The revised metrics show that the additional investment maintains our debt levels below the maximum threshold of 4, peaking at 3.61 before settling back to 3.5 as the debt is repaid. In terms of the financial value, this shows that the borrowing headroom dips to £21.5m – which is the remaining headroom for additional borrowing in other projects, for example expanding the new homes delivery plan.

Working Balance

The minimum working balance threshold is set at £1,500 per property. The borrowing requirement of £13m has been assumed to ensure the increased capital expenditure doesn't breach our minimum threshold, based on assumptions within the financial plan around profile of existing capital programme spend, assumed rents and revenue budget performance. In year surpluses (expected this year) /deficits or changes in timing of capital spend will impact on the value and timing of borrowing requirements.

- 7.6 The delivery window for Warm Homes: Social Housing Fund runs from the signing of the legal documentation to 30th September 2028. Applicants are requested to return completed and signed documents within 15 working days of notification that their application has been successful.
- 7.7 Payment timeline:
- Successful applicants will be required to sign and return a Grant Offer Letter (GOL), Grant Funding Agreement (GFA) and a Data Sharing Agreement (DSA), which must be signed and returned before DESNZ will countersign so DESNZ can issue grant payments under Section 98 of the Natural Environment and Rural Communities Act 2006 (NERC).
 - In the challenge fund route, recipients will only be able to draw down up to 20% of their total grant funding award before their Phase Requests are approved. This is made up of up to 15% Admin & Ancillary (based on the actual baselined percentage set out by each Lead Grant Recipient in their application) and 5% capital.
 - Payments will be made on spending incurred following the submission of a drawdown request by the lead grant recipient. Lead grant recipients will be able to submit a claim for payment of the grant at most monthly and must claim at least once per quarter. There will be a deadline each month to submit a claim for it to be processed in line with DESNZ payment timelines.
- 7.8 Financial Services support to the Housing Service to make claims and to monitor spend will be required throughout the delivery of the programme. Financial Services are involved in the Task and Finish group.

8.0 Legal Implications

- 8.1 If the bid is successful, acceptance of the funding may require NYC to enter into a formal grant agreement. Any legal agreement required to be signed will be reviewed by Legal Services and if any of the terms and conditions present an unacceptable risk for the Council then the grant offer would be declined. Any procurement exercises will be carried out in accordance with the Council's Procurement and Contract Rules and relevant procurement legislation. All expenditure of the Grant will be in line with the Subsidy Control Act 2022.

9.0 Equalities Implications

- 9.1 An Equalities Impact Assessment screening has been undertaken in the 'request to bid' process and remains unchanged. The Warm Homes: Social Housing Fund programme will support residents on lower incomes and in energy-inefficient housing to make the transition to the low carbon economy. See Appendix B.

10.0 Climate Change Implications

- 10.1 The bid will support NYC Climate Change Strategy as outlined in 6.2. A climate change impact assessment has been completed as part of the 'request to bid' process and remains unchanged. See Appendix C.

11.0 Risk Management Implications

- 11.1 A project of this size and complexity does present risk for the Council. However, previous experience in delivering housing retrofit projects has highlighted areas that require mitigation. These include:
- i. **Information** – As the properties in this programme are social housing, the Council has access to much greater information than in the previous similar Home Upgrade Grant 2 application which dealt with private sector dwellings. Access to information about the housing stock is therefore considered low risk. However, EPCs must be reviewed and updated to ensure compliance with the programme, and this can be included in the Admin & Ancillary costs.
 - ii. **Procurement** – the timescale to procure a supplier to administer and deliver the programme in a crowded retrofit market. Working with Align Property Partners will help to mitigate previous challenges with procurement, and it is intended that a framework of suppliers will be established that the Council will be able to access. There are no firm timescales on this, and it is not clear if the Council will be able to direct award off this framework or if further competition would be required. Procurement colleagues are involved in the Task and Finish group to ensure efficient compliance with the Procurement Strategy.
 - iii. **Capacity** – The delivery process is complex and social housing decarbonisation is a relatively new area of work for North Yorkshire Council. However, the Council is in the process of delivering Social Housing Decarbonisation Fund wave 2.2, and over 1000 retrofit, condition, and occupancy surveys have been carried out to gain an accurate understanding of the housing stock portfolio. 15% of the bid amount can be claimed to support Admin & Ancillary and this is likely to be claimed to support contract management within the housing standards team, with the creation of a retrofit team consisting of two team leaders, 6 co-ordinators and 2 operational support staff. The retrofit team will also have additional support in the form of operational or contract supervisors to help with the data analysis (environmental sensors), communications, and additional work to ensure that from continually monitoring our housing stock and adjusting where necessary, NYC housing stock will be energy efficient, affordable, comfortable, and compliant.
 - iv. **Financial** – At least 50% match funding budget is required. It is anticipated that the housing capital programme will provide the match funding.
 - v. **Delivery timescale** – Retrofit of buildings is experiencing over-stretched supply chains with high demand and a growing but still limited skill base. Marketing the

programme and comprehensive tenant engagement and planning works around empty properties to minimise tenant disruption will support delivery.

- vi. **Reputational** - During the cost-of-living crisis and unprecedented energy price rise and with a great emphasis on climate change, it is important that NYC can support residents, particularly those on lower incomes, to transition to the low carbon economy.

12.0 Conclusions

- 12.1 The Council has progressed work in the retrofit space and is committed to improving the energy efficiency of housing stock and ensuring that homes meet a minimum EPC C rating. To achieve this ambition, grant funding opportunities must be maximised when they arise. The Warm Homes: Social Housing Fund presents an opportunity to lever circa £34 million to help meet council ambitions and provides the additional benefit of covering costs associated with delivery. This investment in the housing stock shall improve energy efficiency, reduce fuel bills, reduce carbon emissions, and have a positive long-term impact on the Council's Housing Revenue Account business plan.
- 12.2 The collaboration between Align Property Services and the Council has been recognised at both the National and Regional Energy Efficiency Awards, for embedding energy efficiency measures into the repair strategy. The Council has experience in delivering the Social Housing Decarbonisation Fund wave 2.2 and has established management procedures in place. The award of this fund will provide an opportunity for the Council to continue the delivery of this work on a larger scale, which will ensure a future-proofed social housing stock and will provide multiple co-benefits for council tenants.
- 12.3 Domestic housing retrofit is an area of growth for North Yorkshire Council as it delivers energy efficiency programmes for both the public and private sector housing. In addition, knowledge of the technology and market along with improved delivery techniques develops with every iteration of energy efficiency programmes, and this process will continue over time.

13.0 Reason for the Recommendations

- 13.1 It is recommended that NYC accepts the Warm Homes: Social Housing Fund grant to support investment of the social housing stock. It will also contribute to the delivery of multiple Council objectives in the Council Plan, Climate Change Strategy, and the emerging Housing Strategy. It will also have a positive impact on the Economic Development Strategy and public health targets regarding fuel poverty.

14.0 Recommendation

- 14.1 That the Executive approve the acceptance of the Warm Homes: Social Housing Fund grant of up to £34,345,388 and approves of The North Yorkshire Council match funding of up to £28,945,587.
- 14.2 That the acceptance of the final grant award allocation, subject to suitable terms and conditions, be delegated to the Corporate Director Resources following consultation with the Corporate Director Community Development, the Executive Member for Resources and Finance, the Executive Member for Culture, Arts and Housing and the Executive Member for Managing our Environment.

Appendices:

Appendix A: Housing Revenue Account Business Plan Metrics – Warm Homes Funding Assumptions

Appendix B: Equality Impact Assessment

Appendix C: Climate Change Impact Assessment

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Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.