

Agenda Item	5
Report No	CCWG/1/2022

The Highland Council

Committee: Climate Change Working Group

Date: 28 January 2022

Report Title: Improving the Energy Efficiency of Council Housing in Highland

Report By: Executive Chief Officer – Housing & Property

1. Purpose/Executive Summary

1.1 This report provides a summary of the challenges facing the Council in improving the energy efficiency of its housing stock. It provides details on the national context and proposals to provide a costed analysis of energy efficiency works in Council housing to meet future climate change and energy efficiency standards.

2. Recommendations

2.1 Members are asked to discuss and note the contents of this report ahead of future reporting to Housing & Property Committee.

3. Implications

3.1 Resource – The funding of the Housing Revenue Account Capital Plan 2022-2027 is considered manageable within revenue projections. An enhanced level of funding for energy efficiency works will result in a review of Housing Revenue Account projections to take account of increased borrowing to fund the Capital Plan.

3.2 Legal – The report refers to the legal requirements set out by the Scottish Government.

3.3 Community (Equality, Poverty and Rural) – Investment in energy works has to be considered in line with efforts to mitigate fuel poverty in Highland, especially in off-gas areas.

3.4 Climate Change/Carbon CLEVER – Investment in Council housing will help the Council meet its objectives in regard to climate change.

3.5 Risk – Implications to the Housing Revenue Account and to the Council's Climate Change objectives will be reviewed at this meeting of the Climate Change Working Group and at Housing & Property Committee.

3.6 Gaelic – There are no Gaelic implications arising from this report.

4. Highland Council housing stock - background

- 4.1 Improving the energy efficiency of Council stock in Highland has been a priority since the Council's first Standard Delivery Plan in 2007. The annual Standard Delivery Plan detailed the investment and resources required to achieve the energy efficiency standards as set out in the Scottish Housing Quality Standard (SHQS).
- 4.2 The first Standard Delivery Plan reported that there were 16,589 energy efficiency failures in Highland. It was noted that most Council houses failed the SHQS energy efficiency criteria against the specified Standard Assessment Procedure (SAP) energy rating and that many properties also failed the SHQS criteria in terms of loft and cavity wall insulation levels.
- 4.3 In March 2016, the Council's Annual Return of the Social Housing Charter to the Scottish Housing Regulator confirmed that Highland had reached compliance with the SHQS. However, 9.1% of houses were exempted from SHQS reporting as a result of tenant opt-outs, with most of these cases being a result of tenants unwilling to face the disruption of works or unwilling to accept a change in heating particularly in off-gas areas. These houses have been revisited in future years, but the problem of tenant opt-outs continues in current energy projects.
- 4.4 The Council's Housing Revenue Account (HRA) Capital Plan 2016-2022 has focused on continued improvements to Council housing and ongoing works to maintain compliance with the SHQS. This has included approved investment against energy works in our stock.
- 4.5 The first year of the Capital Plan approved a target allocation of 45% of the 2016-17 HRA Capital Programme to carry out energy efficiency works (primarily heating replacements but also insulation works and solar panels where technically feasible).
- 4.6 The current year's Capital Programme has a target allocation of over 60% of specified investment on energy efficiency works, as agreed by Members at a meeting of the Housing & Property Committee on 13 August 2020.
- 4.7 On 15 December 2021, Housing & Property Committee approved the 2022-2027 HRA Capital Plan with investment of £88.599m. Discussions are underway with Local Members on the specific projects and local priorities ahead of Area Committees agreeing their capital programme for 2022/23.

5. National context and energy efficiency targets

5.1 Climate Change

The Housing to 2040 Strategy affirms the Scottish Government's commitment to take action to adapt and retrofit existing homes to improve their energy efficiency and decarbonise their heating. The target date for zero emissions of all greenhouse gases is 2045, with interim targets requiring emissions reduction of 75% by 2030 and 90% by 2040. However, it is expected that the public sector will need to take a lead on compliance and all publicly owned buildings will need to meet net zero emission heating requirements by 2038.

- 5.2 In December 2021, the Government confirmed their intention to introduce a regulatory framework across all tenures with a focus on improving the energy efficiency of all housing. They estimate that around 50% of homes in Scotland will need to convert to a low carbon heating system by 2030 to ensure the interim statutory targets are met.
- 5.3 **Energy Efficiency Standard for Social Housing (ESSH)**
ESSH is a non-statutory target set out in guidance by the Scottish Government following compliance with SHQS. The first ESSH milestone set a target for social housing by house and fuel type (equivalent to a high D or low C Energy Performance Certificate rating) by 31 December 2020.
- 5.4 Since its introduction, concerns have been expressed by the social housing sector that the 2020 milestone was an unrealistic target considering the requirement on landlords to borrow heavily and increase rents to ensure compliance with SHQS. There were also concerns raised that many properties that had energy measures installed in meeting SHQS would effectively require immediate further investment to reach ESSH.
- 5.5 In the Annual Return of the Charter on 31 March 2021, Highland reported that 74.6% of its properties were ESSH compliant and 19.5% were non-compliant. 5.9% of properties were designated as exempt from the ESSH as a result of technical issues and/or tenant opt-outs.
- 5.6 Non-compliance with ESSH is recognised as a national issue. In July 2021, the Scottish Federation of Housing Associations reported that only 7% of its members had achieved ESSH and that non-compliance was a particular issue for landlords with older stock or in off-gas areas. The Scottish Housing Regulator has also reported that the Covid-19 pandemic has significantly delayed energy works on site in 2020-21 and to date in 2021-22, further delaying compliance with ESSH.
- 5.7 A second ESSH milestone (ESSH2) sets a target for all social housing to meet band B Energy Performance Certificate rating or be as energy efficient as possible within the limits of cost, technology or tenant consent by the end of December 2032.
- 5.8 The Scottish Federation of Housing Associations reported in July 2021 that the vast majority of landlords did not expect to comply with the enhanced ESSH2 requirements by the 2032 deadline. They also estimated that the required energy efficiency works would cost their members approximately £2billion. Further concern was raised that compliance with ESSH2 would only result in a decrease in fuel poverty levels nationally from 38% to 29% (with tenants bearing the costs of the work through increased rent levels).
- 5.9 In December 2021, the Scottish Government confirmed that ESSH2 milestone would be reviewed in 2022 as a result of these concerns and also to ensure ESSH2 is aligned with updates to the Government's Fuel Poverty strategy and Net Zero Strategy. Highland has been nominated by the Association of Local Authority Chief Housing Officers to participate in an ESSH Working Group which will convene from February 2022.
- 5.10 **Zero Emissions Social Housing Taskforce Report**

In August 2021, the Scottish Government published the final report of the Zero Emissions Social Housing Taskforce. The Taskforce was set up to identify how social landlords could achieve net zero emissions while also providing support for tenants in reducing their energy bills and achieving carbon savings.

- 5.11 The Taskforce identified a number of national challenges/issues which are also relevant to Highland:
- Capacity of construction industry to carry out energy efficiency works. This includes concerns over the quality of installers of renewable heating technology.
 - Ongoing impact of the Covid-19 pandemic on construction costs and delivery of works.
 - Ensuring that energy efficiency works mitigate fuel poverty rather than exacerbate it with particular concerns over the future price rises of any electric heating system.
 - Achieving suitable heating replacement options both in off-gas areas and also identifying long-term heating replacement options for gas in mains gas areas.
 - Affordability of works given the low external funding available to social landlords in recent years.

Appendix 1 of this report summarises the Taskforce recommendations.

6. Highland – Next Steps

- 6.1 Highland has commissioned Changeworks to carry out a desktop analysis of a Highland Council domestic stock. The aim of this analysis is to provide a costed assessment of the type and scale of energy efficiency works that may be required in Highland. This will include analysis of the various renewable heating options and an assessment of costs and potential impacts on tenant fuel bills.
- 6.2 The results of the above analysis will be reported to Committee in 2022 and this will make recommendations on any amendments required to the capital plan to achieve better energy efficiency in our housing stock. The expectation is that there will be additional cost pressures involved in achieving Net Zero and this will be subject to further discussion with Members as information becomes available.
- 6.3 Funding for the 5-year capital plan is currently anticipated as being achieved through prudential borrowing. Loan charges for all borrowing used to fund HRA capital investment are funded through HRA Revenue. The Housing & Property team will continue to produce detailed revenue estimates and updated projections to the Housing and Property Committee.
- 6.4 The current costs of energy works both nationally and in Highland have risen significantly as a result of the pandemic. It is anticipated that substantial levels of external funding will be required to assist Highland with investment in its stock to reach the standards outlines at section 5 of this report.
- 6.5 However, at present, external funding is limited. Anticipated income for the 2021-22 capital programme is under £300k through a combination of Renewable Heat Incentive payments from Ofgem and Decarbonisation payments from the Scottish Government. Applications are being developed for new rounds of funding but the overall funding allocation for these works is minimal compared to the estimated scale of the investment required.

- 6.6 This report provides information on the challenges facing Highland as we look to improve the energy efficiency of our domestic stock. However there are also clear benefits in a closer alignment between the objectives of Housing and the corporate climate change agenda.
- 6.7 Improving the energy efficiency of Council housing will significantly contribute to the Council's developing net zero strategy. Investment in Council stock will be a feature of both the review of the Local Housing Strategy in late 2022 and the development of the Local Heat and Energy Efficiency Strategy in 2022 and 2023.
- 6.8 The Scottish Government has also committed to establish standards by 2025 in regard to net zero emissions and energy efficiency for private rented and owner-occupied housing. Currently, private landlords are required to reach Energy Performance Certificate band D by 2025 but there is no mechanism in place to enforce this. Owner-occupiers are currently required to reach band C by 2035, or to carry out fabric works as far as technically and cost-feasible as possible.
- 6.9 The review in private rented and owner-occupied housing will require significant analysis of how improved standards can be regulated. It will also require significant analysis of how existing funding – such as the Warmer Homes Scheme and the Energy Efficiency Area-Based Scheme – can be extended to allow works to be carried out.

Designation: Executive Chief Officer – Housing & Property

Date: 14 January 2021

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Summary of the ZEST recommendations – August 2021

Recommendation 1: The Scottish Government and social landlords should develop a collective commitment to a just transition in the social housing sector with clear metrics and sufficient budgetary investment to ensure this is successfully realised.

Recommendation 2: The Scottish Government should promote a Fabric First approach as an essential first step towards decarbonisation, prioritising investment accordingly, and ensure that the promotion of a Fabric First approach is reflected appropriately in its review of EESSH2.

Recommendation 3: The Scottish Government should work with social landlords to ensure capital investment for social housing is adequate, structured and designed in line with the needs of the sector, and supports the social housing sector's aim for a Fabric First approach.

Recommendation 4: Social landlords and the Scottish Government must work together to plan ahead with certainty, including to work with new partners to access and maximise funding opportunities.

Recommendation 5: Social landlords and the Scottish Government should commit to working together in partnership to understand the current condition and investment needs of the existing social housing stock and develop appropriate collaborative solutions.

Recommendation 6: Social landlords and both local and national government should work in partnership to ensure individuals and communities are fully engaged and supported in the net zero transition.

Recommendation 7: All partners must work together to ensure there is sufficient workforce capacity in Scotland to deliver high-quality retrofit works in the social housing sector.

Recommendation 8: Social housing providers should continue to evaluate their wider impacts and ongoing contribution to tackling the climate emergency, through systematic monitoring and measurement.