

## **Item: 13**

**Education, Leisure and Housing Committee: 16 February 2022.**

### **Energy Efficiency Standard for Social Housing 2.**

**Joint Report by Executive Director of Education, Leisure and Housing and Interim Executive Director of Environmental, Property and IT Services.**

## **1. Purpose of Report**

To consider a plan to deliver the Energy Efficiency Standard for Social Housing 2 covering the period 2022 to 2032.

## **2. Recommendations**

The Committee is invited to note:

### **2.1.**

That, from 1 January 2021, the previous energy efficiency elements of the Scottish Housing Quality Standard have been superseded by the second Energy Efficiency Standard for Social Housing.

### **2.2.**

That all social housing has to meet, or can be treated as meeting, Energy Performance Certificate Band B, or be as energy efficient as practically possible, by 31 December 2032 and within the limits of cost, technology and necessary consent.

### **2.3.**

That, from December 2025, subject to temporary specified exemptions, social housing, which is below Energy Performance Certificate Band D, cannot be re-let.

### **2.4.**

That significant investment will be required to ensure the Council's housing stock meets Energy Efficiency Standard for Social Housing 2 (ESSH2) by 2032, as detailed in Appendix 1 to this report, and summarised as follows:

- A total of 611 properties require energy efficiency works to be undertaken by December 2032 to meet ESSH2.
- The estimated cost of the energy efficiency works is £15.6 million.
- A total of 270 properties already meet the requirements of ESSH2.

## **2.5.**

That, in order to ensure affordability for the Housing Revenue Account, and in turn Council tenants' rents, additional external funding requires to be sourced in order to deliver EESSH2.

## **2.6.**

That the Scottish Government is making £100 million available over the next five years to support social housing projects across Scotland to install zero carbon technologies and energy efficiency measures to existing stock.

## **2.7.**

That, although timescales for securing and delivering projects are challenging, securing Scottish Government funding is essential to assist with the affordability of meeting EESSH2.

## **2.8.**

That, as the proposed EESSH2 works appear to be more significant in scale to the previous EESSH works, which were delivered through the Housing Revenue Account's revenue repairs and maintenance programme, these additional works are likely to be assessed as being capital in nature.

## **2.9.**

That, as the nature of the EESSH2 works can only be clarified once the operational plan detail is fully developed and reviewed, it would therefore be prudent at this stage to assume that the Capital Project Appraisal process may require to be followed.

**It is recommended:**

## **2.11.**

That, in principle, the summary of works and costs required to deliver the Energy Efficiency Standard for Social Housing (EESSH2), attached as Appendix 1 to this report, be approved.

## **2.12.**

That, considering the limitations outlined at paragraphs 2.8 and 2.9 above, acknowledging that delivery is dependent on sufficient funds being available from the Housing Revenue Account, together with additional grant funding assistance from the Scottish Government, the Executive Director of Education, Leisure and Housing should develop the summary of works and costs required to deliver EESSH2 into a detailed programme for consideration through the Capital Project Appraisal process.

## **3. Background**

### **3.1.**

The national programme of improving the energy efficiency of social rented housing in Scotland has been progressing for a number of years starting with the requirement to deliver the Scottish Housing Quality Standard in 2015. Part of this standard related to energy efficiency.

### **3.2.**

The Energy Efficiency Standard for Social Housing (ESSH) was originally introduced in March 2014, with the first target for social rented homes being by 31 December 2020. A second target, which was confirmed in June 2019, has a deadline of December 2032 and is known as ESSH2.

### **3.3.**

From 1 January 2021, ESSH2 formally replaces the energy efficiency elements of the Scottish Housing Quality Standard (SHQS) and local authorities are now required to report performance against this standard as part of the Annual Return against the Charter to the Scottish Housing Regulator.

### **3.4.**

The main aim of ESSH is to improve the energy efficiency of social housing in Scotland. It will help reduce energy consumption, fuel poverty and the emission of greenhouse gases.

### **3.5.**

The Standard Assessment Procedure (SAP) 2012 methodology recorded in Energy Performance Certificates (EPCs) will be used to evidence ESSH2 progress and achievements.

### **3.6.**

ESSH2 requires all social housing to meet, or can be treated as meeting, EPC Band B (minimum SAP rating of 81) or be as energy efficient as practically possible, by the end of December 2032 and within the limits of cost, technology and necessary consent. In addition, no social housing is to be re-let below EPC Band D (SAP rating between 55 and 68) from December 2025, subject to temporary specified exemptions, for example the house has been identified for demolition or disposal or acute local housing need.

### **3.7.**

The 2032 target recognises that EPC Band B will not be met for all stock. To demonstrate this criteria, there is a requirement to demonstrate how the decision was reached that those houses that do not meet EPC Band B have been made as energy efficient as possible, and the reason why that is, any additional improvements are deemed to be either:

- technically non-viable,
- not cost-effective or
- unlikely to secure the necessary consent provided and all reasonable efforts have been undertaken to improve the energy efficiency of the stock.

### **3.8.**

Social housing is held on the Housing Revenue Account which is ring-fenced in law and generally only funded by tenants' rents. The financial cost of meeting EESSH2 will be hugely challenging for a small Housing Revenue Account which also has a range of other financial commitments including an ongoing house build programme and debt repayment for previous house build, repairs and maintenance, coupled with the general costs of delivering a housing service. There is also a need to ensure that tenants are charged an affordable rent. The financial aspects of this are central to the review of the Housing Revenue Account Business Plan.

### **3.9.**

It is recognised that a proportion of social housing cannot be brought up to Band B within existing technology. The test here should be that the landlord is satisfied that the energy efficiency of the house has been improved as much as is practical in the circumstances. The Council will be required to review any decision that improvement to Band B is not technically possible at least once every 5 years.

### **3.10.**

In some circumstances tenants may refuse to participate in the installation of energy efficiency measures necessary to achieve EESSH2. In such instances, the Council must have made every reasonable effort to inform and explain to the tenant why the work is necessary, when it is being done, and why their participation and co-operation is so important. There may be circumstances where tenants are either temporarily or permanently unable to cope with the disruption of works required to their properties and the Council will endeavour to work around these issues on a case by case basis.

### **3.11.**

The technical guidance on EESSH2 advised that the 2032 target has been developed so that no exemptions should be needed. Provided that landlords have a good understanding of the condition of their stock and what is possible and cost effective, they should be able to demonstrate that all houses either meet EPC Band B, can be treated as meeting EPC Band B, or are as energy efficient as practically possible.

### **3.12.**

Air quality is a key health issue affecting people, homes and energy efficiency. While improvements in energy efficiency can lead to improvements in health outcomes there is the potential for unintended consequences adversely affecting the air quality in a home.

### **3.12.1.**

Poor ventilation can lead to poor indoor air quality, and in some cases, problems can be exacerbated by modern design for example increased airtightness and the closing of vents to reduce heat loss.

### **3.12.2.**

From 2025, the Scottish Government is proposing to include a condition in EESSH2, that any new energy efficiency measures should be installed on the principle of no detriment to air quality and, where necessary, additional measures should include provision for improving ventilation (including the installation of mechanical ventilation where required), and that provision should be included for the monitoring of this.

## **4. Affordability and Funding Issues**

### **4.1.**

EESSH2 is intended to reduce carbon production and to improve fuel poverty. However, the Council cannot control the cost of electricity or the level of income of each household, therefore in order to endeavour to improve fuel poverty, a focus on 'fabric first' projects are necessitated to improve energy efficiency. Thereby focussing on the element of fuel poverty which is within the control of the Council.

### **4.2.**

A fabric first approach will be coupled with fitting mechanical heat recovery ventilation systems to help maintain air quality alongside ensuring the provision of an efficient heating system. This will be supported with appropriate monitoring to assist with the provision of direct information to tenants on how best to control their home environment, with respect to air quality (humidity, temperature, carbon dioxide) and energy consumption.

### **4.3.**

During the pandemic the price of building materials has increased by up to 25%. Alongside projected increases in labour costs, a limited local workforce and plans to deliver an ambitious Strategic Housing Investment Plan, delivering EESSH2 will be challenging and estimated costs will be subject to market forces. In addition, advances in technology over the 10 year timescale will influence the final solution for a particular property type.

### **4.4.**

Delivery of EESSH2 is anticipated to require some enhancement to existing staffing levels in Housing and Development and Infrastructure particularly around project management and operational delivery, anticipated to be four full time equivalent staff, at an estimated additional cost of £166,500. These costs are in addition to the overall cost of meeting EESSH2 which is outlined at section 5.2 below.

## 5. Plan for delivery

### 5.1.

An operational plan has been produced which includes details of each property held by the Council and any works required to ensure each property achieves EESSH2 with approximate costs. This plan has been abbreviated into a summary of works and costs, attached as Appendix 1 to this report.

### 5.2.

The summary of works and costs has been produced in the form of an overview of house construction types and works required to bring the properties up to the EESSH2 standard with approximate costs. Currently, 270 properties or 27% of Council housing stock meets EESSH2. It is estimated that the cost for the remaining 611 homes to be brought up to EESSH2 standards is £15.6 million.

### 5.3.

The current SAP ratings of properties held are as follows:

SAP rating.	No of properties.
Band A (SAP rating 92 – 100).	7.
Band B (SAP rating 81 – 91).	174.
Band C (SAP rating 69 – 80).	291.
Band D (SAP rating 55 – 68).	486.
Band E (SAP rating 39 – 54).	12.
Band F (SAP rating 21 – 38).	2.
Band G (SAP rating 1 – 20).	11.
<b>Total.</b>	<b>983.</b>

#### 5.3.1.

Apart from the Band A properties that are all located in Hoy, the energy performance of properties is spread across Orkney. Of the 25 properties currently Band E to F; 15 will require energy efficiency works to meet Band B, four are not cost effective to bring up to a Band B although still require to be made as energy efficient as possible, and six are to be sold or repurposed.

### 5.4.

The operational plan, referred to at section 5.1 above, has also taken into consideration the programmed life cycle costs of maintaining the Council's housing stock. For example, where heating elements or windows have come to the end of life, they are replaced with elements that will support EESSH2 standards. The cost of projected life cycle works, which overlaps with the period 2022 to 2032, equates to £7.5 million, of which £1.4m overlaps with EESSH2.

#### **5.4.1.**

The operational plan requires some further enhancement in order to plan a timeline for each aspect to be delivered and to ensure the financial elements are planned for in the relevant financial year. Contingencies also require to be planned for, to include potential increases in cost of supplies.

#### **5.4.2.**

Enhancement to the operational plan as outlined above should include development of a proposed three year rolling programme of works, divided into annual programmes, with appropriate contingency to allow for slippage or faster delivery as funds and other resources allow.

#### **5.5.**

Sections 10.4 and 10.5 below outline the complexities of the financial accounting systems involved. The operational plan detail requires to be fully worked up, and the proposed works formally assessed as being either revenue or capital in nature. Thereafter, in order to ensure appropriate governance around the programme outlined above, it is anticipated that a Stage 2 Capital Project Appraisal would require to be developed and presented to the Policy and Resources Committee in due course. The Housing Revenue Account Budget Planning process and reporting should be adjusted in line with this requirement.

### **6. Scottish Government Social Housing Net Zero Heat Fund**

#### **6.1.**

Available funding from external sources is limited. The Scottish Government is making £100 million available over the next five years to support social housing projects across Scotland to install zero carbon technologies and energy efficiency measures to existing stock. These grants require match funding.

#### **6.2.**

The Scottish Government Social Housing Net Zero Heat Fund may be used to fund energy efficiency and heating schemes with a contribution of up to 50% of total capital expenditure up to £10 million. However, currently 'fabric first' projects, funded from current funding require to be delivered by March 2023.

#### **6.3.**

Access to the Scottish Government Social Housing Net Zero Heat Fund is through a process of submitting bids. Bids are currently required annually and timescales for delivery are tight thereafter. Therefore, there is a need to ensure that governance is in place to enable the Council's response to a call for bids to be swift and be linked to projects which are ready to be delivered.

## **7. Next Steps**

### **7.1.**

Delivery of the operational plan referred to at section 5.1 above, will require to be aligned with the Housing Revenue Account Business Plan to ensure ongoing affordability and interconnection with the house build programme whilst ensuring rental affordability.

### **7.2.**

Appropriate governance is required and therefore the process outlined above will be aligned closely with the development of a Stage 2 Capital Project Appraisal as outlined at section 5.5 above, taking into account the complexities outlined at sections 10.4 and 10.5 below.

### **7.3.**

Delivery of EESSH2 requires to be monitored and reported to the Scottish Housing Regulator annually through the Annual Return against the Charter.

### **7.4.**

An annual report on progress towards meeting the EESSH2 standard will be presented to the June cycle of meetings.

## **8. Links to Council Plan**

### **8.1.**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority theme Thriving Communities.

### **8.2.**

The proposals in this report relate directly to the following Priority of the Council Delivery Plan. 3.9 – We will continue to deliver the Fuel Poverty Strategy, to seek to secure appropriate funding and in turn to reduce fuel poverty.

## **9. Links to Local Outcomes Improvement Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the new Local Outcomes Improvement Plan priorities of Community Wellbeing.

## **10. Financial Implications**

### **10.1.**

A review of the Housing Revenue Account (HRA) Business Plan has been commissioned from external consultants. This is to ensure appropriate financial



planning for all the competing demands on the HRA is taken into account, including debt repayment, ongoing house build, requirements of meeting EESSH2 alongside general repairs, improvements and housing service delivery whilst aiming to ensure tenants are charged an affordable rent. It is anticipated that this review will be concluded by September 2022. While early indications are positive, this should help to clarify the financial capacity of the HRA both to improve the overall standard of existing housing stock and develop a programme of new builds.

## **10.2.**

Section 6 above outlines the position surrounding funding from the Scottish Government and the requirement to bid for any available Scottish Government funding swiftly and to meet challenging timescales for delivery.

## **10.3.**

It is notable that EESSH works have, to date, been delivered as part of the HRA's annual revenue repairs and maintenance programme. For financial year 2021/22 the budget for repairs and maintenance is £1,464,200 and includes works that can be attributed to meeting the ongoing EESSH requirements.

## **10.4.**

When assessed on a unit or individual property basis, the scale of the EESSH works delivered to date have not been considered to represent material capital improvements to the buildings, resulting in the works being classified as revenue in nature and delivered through the repairs and maintenance programme, as detailed at section 10.3 above. This simplified the associated fixed asset accounting requirements which could otherwise be quite onerous including, for example, the need to carry the improvement works on the balance sheet and then depreciate them over the useful life of each individual asset either on a component or whole property basis as appropriate.

## **10.5.**

On the basis that the proposed EESSH2 works appear to be more significant in scale, then the works are likely to be assessed as being capital in nature. While this position will only be clarified once the operational plan detail is fully developed and reviewed by finance officers, it would be prudent at this stage to assume that the Council's capital project appraisal process may have to be followed. The associated workload and resource implications needed to manage this position has yet to be reviewed but is likely to be significant particularly if this necessitates having to account for the Council's fixed assets at an individual component level.

# **11. Legal Aspects**

## **11.1.**

The Housing (Scotland) Act 2010, Section 31, provides Scottish Ministers with the power to set standards and outcomes which social landlords should aim to achieve when performing housing activities. The Act also created the Scottish Housing

Regulator (SHR), and set out its statutory objectives, functions, powers and duties. The SHR is an independent regulator, directly accountable to the Scottish Parliament.

## **11.2.**

The Energy Efficiency Standards for Social Housing are monitored by the SHR. Social landlords are required to provide the SHR with annual information on compliance.

## **12. Contact Officers**

James Wylie, Executive Director of Education, Leisure and Housing, extension 2477, Email [james.wylie@orkney.gov.uk](mailto:james.wylie@orkney.gov.uk).

Frances Troup, Head of Community Learning, Leisure and Housing, extension 2450, Email [frances.troup@orkney.gov.uk](mailto:frances.troup@orkney.gov.uk).

David Brown, Team Leader (Information and Infrastructure), extension 2172, Email [david.brown@orkney.gov.uk](mailto:david.brown@orkney.gov.uk).

Hayley Green, Interim Executive Director of Environmental, Property and IT Services, extension 2309, Email [Hayley.green@orkney.gov.uk](mailto:Hayley.green@orkney.gov.uk).

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## **13. Appendix**

Appendix 1: Summary of works and costs required to meet EESSH2.

## Appendix 1 Summary of works and costs to meet EESSH2

House Type	Description	Walls	Loft	Underfloor	Heating	Ventilation	Number of Properties	Estimated Cost (£)
0	Exempt						12	N/A
1	Meets EESSH2 Standard						270	N/A
2	Timber kit, blocked-in	Strip plasterboard and fit rigid insulation	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	263	5,075,900.00
3	Timber kit, already externally insulated not blocked-in	NA	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	19	167,200.00
4	Cavity wall -add internal insulation	Strip plasterboard and fit rigid insulation	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	263	5,996,400.00
5	Cavity wall no space inside - Add external wall insulation	Fit external insulation and overclad	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	37	1,065,600.00
6	Solid block wall	Fit external insulation and overclad	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	4	115,200.00
7	Solid stone wall	Fit external insulation and overclad	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	87	2,505,600.00
8	Solid stone listed building / restrictions	Strip plasterboard and fit rigid insulation	Insulation top up and fit vents	Underfloor insulation	High Heat retention storage heaters	Mechanical Ventilation with Heat Recovery	28	638,400.00
<b>Totals</b>							<b>983</b>	<b>15,564,300.00</b>