

Background paper

LOW CARBON CHALLENGE FUND GRANT DECISION – INNOVATIVE HOUSING RETROFIT

Proposal detail

- 1 The proposal is that a £200k grant from the Low Carbon Challenge Fund (LCCF) is conditionally awarded to Bristol City Council (BCC) as match funding for a bid to the Social Housing Decarbonisation Fund Demonstrator (SHDF Demonstrator).
- 2 The £3.6m Bristol Energiesprong Demonstrator Project will retrofit 40 Council owned houses and develop innovative solutions to enable the roll out of a whole-house retrofit programme to thousands of properties.

Background

- 3 LCCF supports the delivery of WECA's Climate Emergency Declaration to achieve net zero by 2030, through the reduction of greenhouse gas emissions and the promotion of low carbon solutions. It also supports the West of England Recovery Plan, stimulating the economy through low carbon works and reduced energy costs.
- 4 LCCF is funded through the European Regional Development Fund (ERDF). The managing authority is the Ministry of Housing, Communities & Local Government (MHCLG). The £200k allocated to housing retrofit can pay for up to 40% of eligible capital costs. It must improve the energy efficiency of 25 homes, through innovative technologies or techniques, by the end of December 2021.
- 5 The SHDF Demonstrator aims to stimulate innovation in the whole house retrofit market in order to reduce upfront costs that are a barrier to wider take up. Improving the energy performance of buildings is a key objective in the Government's Clean Growth Strategy, with homes accounting for 15% of the UK's greenhouse gas emissions. The Government has also set a national fuel poverty target to improve as many homes as possible to Energy Performance Certificate (EPC) Band 'C'. The SHDF Demonstrator was launched on 30th September with a closing date of 12th November. Projects must be led by a local authority.

LCCF application process

- 6 Discussions were held with all four local authorities about the potential for ERDF to be used as match funding. BCC and Bath & North East Somerset Council expressed an interest and a short application process was run in October. Deadlines for this process were limited by the short timeline of the national SHDF Demonstrator competition and the need to gain CEOs' Group approval. One application for match funding was received from BCC.

Bristol Energiesprong Project

- 7 The Bristol project will cost £3.6m – with allocated funding of £2m from the Housing Revenue Account, a proposed £1.4m bid to the SHDF Demonstrator and £200k match from LCCF.

- 8 The project will retrofit 40 homes in either 1930s brick or Easiform concrete properties. BCC owns 6,000 of each type with a typical EPC rating of 'D'. The project is expected to save 4.1 tCO₂e per property and 164 tCO₂e in total.
- 9 The project will start in January 2021 with an estimated date for completed installs by December 2021.
- 10 The Energiesprong model results in a zero-carbon property through improved fabric and airtightness, renewable energy and non-fossil fuel heating. It provides a quick installation process through off-site manufacturing. It is potentially cost neutral (at scale) with the costs paid back through reduced maintenance and repairs over 30 years. Tenants gain a warm and comfortable home with reduced energy bills. The model is backed by a long-term performance guarantee.
- 11 Energiesprong has been proven in the Netherlands and tested in several UK sites. It currently runs at an average of £80k spend per property but needs to achieve £50k to be cost neutral.
- 12 The Bristol project aims to procure through the Energiesprong Innovation Partnership set up by the Greater London Authority. This will use an Innovation Partnership Procedure (IPP) introduced under the Public Contracts Regulations 2015. This procurement approach will be taken through BCC's formal approval processes once SHDF Demonstrator grant has been approved.
- 13 The Bristol project will test Energiesprong:
 - a. on new housing archetypes;
 - b. at scale, through the IPP approach, to achieve a cost neutral model;
 - c. with the national and regional supply chain to deliver innovation;
 - d. through process optimisation in order to roll out at scale.
- 14 The cost to BCC to retrofit its stock using traditional retrofit models is likely to be £220m, with a figure for all buildings in the city estimated at £1.5bn.
- 15 The project will benefit the West of England region through development of the supply chain. Existing suppliers will be able to adopt the Energiesprong approach and new suppliers will be able to enter the market. Regionally, there is a potential pipeline of thousands of retrofits in social housing stock and other tenures. Throughout the project, BCC will promote the approach to other landlords and work with them to bring forward properties for retrofit. This will provide incentives to the supply chain by reducing the price of retrofit and demonstrating a pipeline of work. BCC will provide engagement activities for landlords and the supply chain.
- 16 BCC is submitting a consortium bid to the SHDF Demonstrator with the London Borough of Barking & Dagenham (LBBD) to achieve the required scale. LBBD will act as lead bidder but not be involved further in the Bristol project. BCC will be supported by technical partners Turner & Townsend and Energiesprong UK.

Assessment

- 17 WECA has assessed that the project is eligible for funding under LCCF, ERDF and State Aid rules.
- 18 The project meets ERDF requirements for innovation, improving the energy efficiency of 25 homes and compliant procurement procedures. ERDF has already been used on Energiesprong projects in the UK.

- 19 The project meets WECA's requirements for LCCF to deliver good quality retrofit using the PAS2035 retrofit standard. It also meets WECA's requirements to avoid unintended consequences, such as overheating or increased energy costs, that negatively impact on tenants through the long-term performance guarantee.
- 20 The project is deemed to be, in the main, a 'No Aid' project. This allows LCCF to be combined with SHDF Demonstrator funds. LCCF funding will not be used on the elements of the project that fall under allowable State Aid. The SHDF application process will also involve a State Aid assessment which may impact further on how LCCF funds are deployed in the project.
- 21 The proposals are deemed to be a technically credible and innovative domestic retrofit project.
- 22 BCC, alongside many social landlords, cannot afford to retrofit its homes to net zero standards under traditional business models. LCCF and SHDF Demonstrator grant will allow BCC to test the Energiesprong model and help bring it down to a cost neutral model. The LCCF grant will provide additionality for the region in the development of shared learning and opportunities for the supply chain.

Risks

- 23 There is a low risk in WECA supporting BCC's bid with potential match funding. If no SHDF Demonstrator grant is awarded or BCC choose not to proceed with the project, WECA can return the ERDF funding to the Green Business Grants or Local Energy Scheme pots.
- 24 The SHDF Demonstrator application process will test the Bristol Energiesprong Project in full, including deliverability, skills and expertise, and the credibility and robustness of costs.
- 25 If awarded SHDF Demonstrator grant, the risks to LCCF funding centre on any delay to the project delivery. This could arise from COVID-19 impacts on the supply chain, restrictions on installations due to winter weather, an unrealistic project plan driven by Demonstrator deadlines and/or delays in project processes such as procuring suppliers. This could be mitigated by ensuring that LCCF pays for the first 25 homes that are installed; and potentially requesting an extension from MHCLG to the overall LCCF deadline and specific housing targets, which may also be required for other LCCF grant streams.

Conditional grant award

- 26 It is proposed that grant is awarded subject to the following conditions being met:
 - a. the award of adequate SHDF Demonstrator grant to the project to make it financially viable, evidenced through formal notification from BEIS;
 - b. planning approval in place by Autumn 2021, evidenced by formal notification of the approval of full planning permission from the Local Planning Authority;
 - c. agreement of a grant draw-down schedule with WECA by the end of March 2021, against the first 25 homes completed;
 - d. agreed outputs with WECA for shared learning and supply chain development in the region.