

Funding net zero in social housing – notes from the “roundtable of the willing” held 17th May 2024



Roundtable organised by SHIFT Environment

www.SHIFTenvironment.co.uk



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Who is SHIFT Environment and why we organised the roundtable

We are a team of environmental reporting professionals specialising in the UK social housing sector. Clients use our reports for strategy development, compliance reporting, third party progress reporting and ESG reporting.

In our work we have seen that most landlords have sufficient budgets for getting their homes to a good energy efficiency standard¹. However, this is only part of the net zero journey. The next stage is to convert homes to non-fossil fuel heating. In general, the new heating systems will run off electricity and tend to be much more expensive to install than the gas boilers they replace. Estimates vary but the bill is likely to be tens of billions of pounds.

We have a proposal for a way of funding this stage of the net zero journey and the roundtable was organised² to gain a sense check on the proposal from the most relevant groups in the sector.

Our intention is that this paper serves as a discussion point for those in the sector to either agree or disagree with. Either way, the intention is to begin a path to funding net zero in an efficient manner.

Who attended

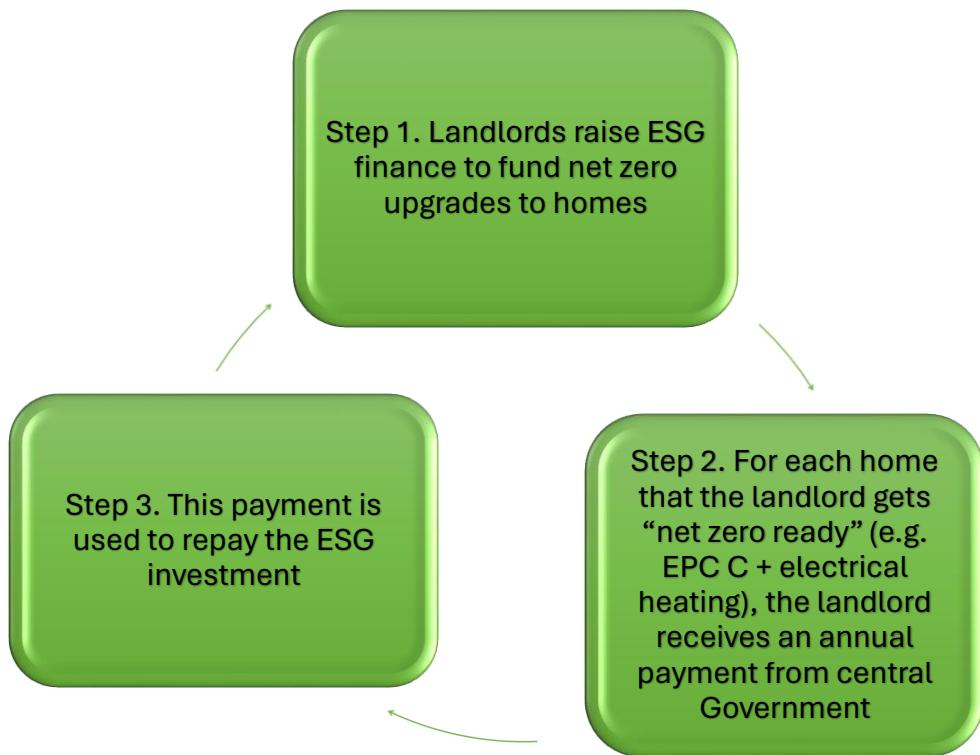
- Finance directors from 6 different housing associations representing over 180,000 homes
- 4 different investors representing around £40 billion invested in the social housing sector
- A representative from the Green Finance Institute whose mission is, “To accelerate the transition to a clean, resilient and environmentally sustainable economy by channelling capital at pace and scale towards real-economy outcomes that will create jobs and increase prosperity for all.”

¹ Energy Performance Certificate (EPC) band C by 2030

² It took place on 17th May 2024 at a room kindly provided by Convene who provide ESG reporting software - <https://www.azeusconvene.com/esg>



The proposed funding model



Advantages for social landlords

- Avoids burdensome funding applications (e.g. for SHDF) – many landlords have highlighted that the application process is time consuming and, even if a bid for funding is successful, it is a very difficult to stick to the delivery timelines
- Payments can be based on verifiable data – for example EPC's show the necessary information and are produced by formally qualified assessors (although it is recognised that the quality of these certificates will need to be improved)
- Landlords can do upgrade works at their own pace
- Changes dynamics in an organisation - FDs will now require asset managers to upgrade homes, as opposed to asset managers asking for money from FDs
- Landlords can negotiate better prices with suppliers – many are commenting that contractor prices are increasing which may be because contractors know that landlords must deliver to tight timescales under current funding programmes. When landlords can upgrade at their own pace, this imbalance will not exist
- The proposed model generates a steady and predictable income stream
- Residents benefit quicker because landlords no longer have to wait for big funding rounds
- The funding model forces a definition of net zero for social homes which allows landlords to devise better strategic planning
- There is a clear financial incentive for a landlord to upgrade homes to net zero

Advantages for investors

- An “investable” proposition – the mechanism to pay back any loans is very clear
- Helps with ESG portfolio – the international investment community recognises the benefits of ESG investment and are looking to expand their ESG portfolios
- Can lend more to landlords – and hence generate more business for themselves
- Independently verifiable and assured – investors are looking for sustainability assurance and tracing payments back to EPC data is a means to enable that

Advantages for Government

- The biggest advantage to Government is that there is likely to be less money to pay out overall. The proposed model has some similarity with the Feed-in Tariff (FIT) model for solar panels that was in place in 2010. FIT quickly drove down the price of solar PV and established a large supply chain and capability which no longer requires external funding
- Could incentivise match funding from other sources – in particular there appears to be lots of funding available for technologies that generate a measurable amount of renewable energy
- Facilitates UK’s transition to net zero – the same supply chains that upgrade social homes can now upgrade homes of other tenures – there is now an incentive for the supply chain to upskill to green jobs
- The scheme is linked to verifiable data – payments would be based on lodged EPC’s, the quality of which Government has ultimate control
- The model is scalable to trial, to adjust over time and to implement
- It could apply to help fund “over and above” costs on new build
- Attracts tax income from supply chain
- NHS costs could decrease as a result of warmer homes which are cheaper to run – this means that households will be less likely to be in fuel poverty with the associated reduction in hospital admissions
- Easier to change levies from electricity onto gas – the Heat and Buildings Strategy³ introduced an ambition to rebalance energy levies away from electricity to gas – with more homes using electricity for heating, this will make this necessary rebalancing easier to implement

Reaction to the model

These are SHIFT Environment’s notes on attendees’ reactions. We feel we have reflected reactions correctly and any misinterpretations are ours.

- Overall there was general support of the idea, particularly the clear annual income aspect

³ <https://www.gov.uk/government/publications/heat-and-buildings-strategy/heat-and-building-strategy-accessible-webpage>



- The broad support was not to be taken as whole-hearted endorsement of the proposed model, as other models may emerge – in any case it was widely acknowledged that there was funding problem for getting homes to net zero
- It was highlighted that landlords already have large levels of borrowing. For a scheme such as this to work, special purpose vehicles would have to be used
- Another advantage of this scheme was that it would mean that landlords can make more money available for building more new homes
- The model lends itself to be trialled / introduced on a regional basis
- By making upgrades easier to implement, the model contributes to the “Levelling Up” agenda as well as energy security
- There will need to be quality improvements in the EPC regime and related ventilation issues will also need to be included
- Investors were keen to be able to evaluate the amount of carbon saved if this model is implemented
- Some kind of certainty of the longevity of the long-term payments would be needed
- Will need to highlight the residents’ bills saving element of any funding model in order to gain buy-in from boards
- Any funding scheme would have to be accessible to landlords of all sizes

Next steps

The purpose of this roundtable was to document the proposed funding model and relevant people’s reaction to it. Aside from creating and publicising this document, no actions were taken at the session, but the list below highlights the types of action needed:

- Identify a lobbying organisation that could take this forward
- Identify a means of funding the lobbying organisation
- Carry out a Green Book analysis that could be used by HM Treasury
- Circulate the idea to civil servants in relevant Government departments – DLUHC, DESNZ, Treasury
- Highlight the advantages to Government as listed above -in particular highlighting why public money should go to upgrading social homes

SHIFT Environment

SHIFT carries out a full range of environmental reporting, specialising in the social housing sector. We do:

- SHIFT – environmental reporting and accreditation for existing homes, new build and offices
- SECR and ESG reporting services
- Environmental road mapping and strategy development – creating a path from a baseline to a truly sustainable housing stock whilst maximising financial benefits to the landlord
- Post-Occupancy Evaluation – comparing actual performance in retrofit and new build with design performance
- Related consultancy

SHIFT services are delivered by Suss Housing Ltd.

Please be in touch for a free consultation on any of the above. Contact Richard on 07718 647117 or richard@SHIFTenvironment.co.uk

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