



Briefing Notes: Monday 7 July 2022

Do we have the right risk appetite to deliver Net Zero Carbon?

In partnership with







Introduction

Simon Turek, Chair of Audit & Risk at Poplar HARCA and Artica Partnership, gave a comprehensive presentation about net zero carbon (NZC), particularly focusing on the need for housing retrofit investments. The government set out policies and proposals for decarbonising all sectors of the UK economy to meet NZC by 2050 and housing associations play a critical part in achieving this.

The presentation covered a high-level summary as follows:

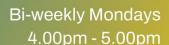
Challenges

The sheer scale of the challenge can be put into perspective when we consider homes in the UK account for 17% of all UK emissions and 30% of overall energy use. These challenges are underwritten by the fact that housing retrofit requires considerable investment (an estimated investment of £100 billion). Investment issues, coupled with building cost inflation, the scaling up of supply chains and risk appetite means the housing sector will be difficult to decarbonise.

The thermal energy efficiency of the UK housing stock is very low and only 10% of houses use electricity as a main heating source (so decarbonising the electricity grid does not materially help on its own). This combination drives high fossil fuel consumption, resulting in high energy use for residents. It is therefore necessary to undertake large-scale retrofit decarbonisation to reduce the carbon footprint for heating the UK housing stock. Whilst the sector has made a more noticeable improvement over the past decade, the majority of existing stock remains unchanged in terms of performance.

Risk Appetite

In the context of housing retrofit, there are a wide range of risks. These include a whole host of concerns from financial health, reputation, development and compliance to the wellbeing of communities and neighbourhoods. As board members, we face many difficult decisions, and





the challenge of housing retrofit comes at a time where boards are also tackling other key issues such as building and fire safety. These choices are not easy to balance when the desirable option is to prioritise everything.

As part of managing and balancing risk, there is an important set of additional inputs which feed into the decision-making process. CME have worked with HACT to assess risk appetite by calculating the average social value return and the results evidenced that, for a whole house retrofit, this can be around £1,500 per tonne of emissions reduced.

Making Informed Decisions

Making an "informed decision" is not simply a case of seeing housing retrofit works as a case of investment because the board must consider the wider context. When we look at the return on investment, the impact is felt much wider with several environmental and social impact benefits.

There is a positive impact on reducing fuel poverty as the works can ensure residents have access to affordable, reliable and sustainable energy. There is another direct positive impact on the lives and wellbeing of residents because reducing fuel poverty naturally leads to reductions in the number of winter deaths and mental health issues.

Two additional social impacts to consider is that for every £1.00 spent on retrofit, the NHS can save an estimated £0.42. The works also promote inclusivity and sustainable economic growth. It is estimated that retrofit works can generate about 138,000 new jobs by 2030.

Questions

(1) What are pros and cons for beginning investment for Housing Retrofit now?

Simon highlighted that it is a balance between whether we bring environmental, social and economic benefits earlier or wait to see how technologies evolve. Just from the perspective of environmental benefits, there is more value in reducing emissions earlier on because they have an ongoing positive effect for more years with reduced emissions. On the other hand, there is some infancy in the construction technology that is needed to undertake housing retrofit. Therefore, as new and improved cost-effective methods emerge, there may be some advantage to waiting.

Members discussed other time-sensitive pros and cons such as:

Pros	Cons
The energy cost benefit to tenants.	Boosting the local economy is not always realistic when many of the retrofit jobs require specific skill and expertise. Scaling up supply chains is therefore not always feasible.





Raising awareness of climate crisis and improving carbon literacy.	Balancing competing priorities around fire safety, building safety and other regulatory requirements.
Driving forward other business as board members are trained to comprehensively understand the agenda, implications and how it needs to incorporated into other internal policies.	Issues with funders as they currently deem many retrofit activities as "major repairs" rather than capital works.

(2) How can we address disruption to residents when moving to the first phase of retrofit?

Simon outlined there are broadly two approaches for the works: whole house retrofit; and programmed incremental works. It is important to understand whether residents would be more inconvenienced by one longer visit or many shorter visits. Some organisations are putting together resident engagement groups so that they are educated on the subject matter and are aware they have an element of choice. An option to suit both parties could be to consider the benefits of tying together both retrofit and building safety works.

Members discussed the benefits of Tenant Liaison Officers and treating retrofit programmes as equivalent to larger scale regeneration programmes. Whilst Tenant Liaison Officers are additional early costs, the positive impact with tenants and increased overall satisfaction levels along with wider ownership of the programme by tenants may reduce overall costs in the medium term.

(3) What should happen to inefficient homes that are not economically viable to improve?

Simon considered how loss of stock from the housing sector would impact the provision of retrofit works. There are significant economic challenges and so this remains a live debate as to whether to divest that stock or find other ways to repurpose those homes.

Members discussed the fact that there is no definition for "not practical" or "economically viable" within guidance or from BEIS and how organisations can improve on dynamic asset management and disposal of stock. There was some discussion over the option to the sale of certain properties and using the capital receipts to fund the purchase of equivalent properties in the same location, resulting in no net loss in that area. Above all, any decisions to dispose of housing stock needed to be in the best interests of the housing association, however difficult or wide the question was framed.

(4) How will carbon reduction impact on the process of s.106 acquisitions?

Bi-weekly Mondays 4.00pm - 5.00pm

The discussion centred on the appetite for continuing to buy housing stock offered by developers that will in time require retrofit works and if there was still appetite to push development programmes towards net zero homes.

Members discussed approaches of buying housing which was EPC rating B or above so that there is space to retrofit at a later date.

(5) Covenant Restrictions – Major Repairs vs. Capital Works?

Members discussed the need to educate lenders and to assist their understanding of housing retrofit activities. Some housing associations were experiencing potential covenant restrictions that needed to be renegotiated with retrofit works recategorized from major repairs to capital works. There was some frustration around how this contradicts incentives to push forward ESG now and the fact that lenders would want to leverage the benefit of being associated with positive ESG stories relating to retrofit.

In summary, now is the time to be encouraged to invest in housing retrofit. We need to:

- Learn from it.
- Understand the risks and benefits.
- Make tough decisions in terms of active management.
- Treat them like regeneration schemes and engage with residents and funders.

Anthony Collins Solicitors LLP 5 July 2022

Register for our next session

Does the social housing sector hold itself back by boards being too financially conservative?





A discussion led by *David Brooks, Non-Executive Director of Futures Housing Group.* David brings a wealth of knowledge from outside the sector to consider investment needs and brings a relatively fresh perspective to the topic within social housing, having been on the Futures board for nearly five years.

Is a change in culture to risk-averse investment required from boards, in order to reach targets including net-zero, building safety, new homes and quality improvement?