



Local Heat and Energy Efficiency Strategy

Energy Efficiency Standard for Social Housing

Report by Kevin Anderson Executive Director, Place

Report for Decision

1 Recommendations

It is recommended that the Council:

- a) Note the challenge to meet the legislative requirements of the Energy Efficiency Standard for Social Housing 2 and the further challenge of bringing our housing stock to operational net zero carbon;
- b) Agree to the proposals in this report to set up governance to oversee the development of an Energy Efficiency Delivery Plan (EEDP) for the Council's social housing by December 2022;
- c) Agree, in principle, as an absolute minimum, to develop targets as part of the EEDP that deliver compliance with EESSH2;
- d) Investigate options around achieving the best practical solutions and feasibility of achieving net zero carbon or better across the housing estate by 2030, while ensuring fewer households will live in, or be at risk of, fuel poverty;
- e) Agree an initial budget of **£70k** to end of December 2022 to cover activities of the project team and advisers. This cost would be met by the Housing Revenue Account (HRA).
- f) Note that an early estimate envisages a future Housing Investment programme will have to make provision for over **£114.760m** to 2032 at today's prices. This excludes any costs associated with decanting tenants;
- g) Note that if there is no direct support from Scottish Government this could have an impact of up to an additional 2.3% on housing rents for 2023/24-2036/37 to ensure the project remains affordable to the HRA;
- h) Agree that an approach should be made to Housing Associations active in the area to seek to work together where there is shared vision; and
- i) Agree that all new Council houses shall be built in line with Midlothian Council's Housing Design Guide to 2030.

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2 Purpose of Report/Executive Summary

- 2.1** This report provides Council with proposals to produce an Energy Efficiency Delivery Plan (EEDP) for the Council's Housing stock and seeks its agreement to set up a project team with budget and governance to oversee the EEDP development by December 2022.
- 2.2** The report identifies, at high level, the scale of the challenge to meet legislative and local policy requirements and asks the Council to include ambitious targets and explore how the Council might meet or exceed net zero carbon across the Council estate by installing the best practical solutions for maximum impact.
- 2.3** The EEDP will be one of the core plans supporting the Council's Local Heat and Energy Efficiency Strategy (LHEES) that will start to be developed over the next year. It also supports the Council's Local Housing Strategy.

3 Background

Policy Background

Climate Change General

- 3.1** Public bodies have statutory climate change duties under the Climate Change (Scotland) Act 2009. Section 44 requires each public body, in exercising its functions, to contribute to delivery of Scotland's national net zero target and act sustainably.
- 3.2** In December 2019, the Council declared a "Climate Emergency" with the aim of making the Council's activities net-zero carbon by 2030. This ensures that all strategic decisions, budgets and approach to capital projects are in line with the shift to zero carbon by 2030.
- 3.3** In August 2020, the Council approved its Climate Change Strategy. This sets out a series of short term (2 - 3 years), cross service actions designed to kick-start change and build momentum towards the net zero goal by 2030. The strategy acknowledged that:

"The scale of the challenge, the commitment required to change behaviours, practices and processes as well as the investment required to "stop contributing to climate change" cannot be underestimated and the necessary resources to make this happen also cannot be underestimated and must be prioritised if we are to be successful and ensure a bright future for generations to come."

3.4 Housing Strategy

There are two main documents of relevance here:

- a) Strategic Housing Investment Plan (SHIP) 2019 -2024
- b) Local Housing Strategy 2021-2026

3.5 Strategic Housing Investment Plan (SHIP) promotes energy efficiency in all homes and ensure they meet the EESSH1 energy efficient standard for Social Housing. The standards seek to reduce energy consumption and carbon emissions in line with targets in the 2009 Act. The Plan states that all housing projects in Midlothian have maximised and will continue to maximise the opportunities for energy efficiency and reduction in fuel poverty. Both the Council and RSLs have been working towards ensuring that properties in Midlothian meet the EESSH1.

3.6 Local Housing Strategy 2021-2026 also promotes energy efficiency in all homes and reducing the number of households in fuel poverty. It identifies that Midlothian Council is progressing two separate pilot projects adopting Passivhaus design Standards. The EESSH1 set out the minimum energy efficiency ratings that landlords are expected to meet across their housing stock by 2020.

EESSH2 targets, detailed below, have now been confirmed.

3.7 EESSH

The EESSH is to encourage landlords to improve the energy efficiency of social housing in Scotland. EESSH was first introduced in March 2014 and set a first milestone for social landlords to meet for social rented homes by 31 December 2020. The second milestone, EESSH2, was confirmed in June 2019, for social rented houses to meet by December 2032.

3.8 The EESSH milestones are defined by the Standard Assessment Procedure (SAP) 2012 methodology recorded in Energy Performance Certificates (EPCs)

3.9 The first EESSH milestone set a single minimum Energy Efficiency rating for each home rented by social landlords. The target varied dependent upon the dwelling type and the fuel type to be used to heat it. Social landlords were expected to ensure that they achieved the relevant minimum ratings by 31 December 2020 for all applicable social housing subject to exemptions for some properties.

3.10 The EESSH was reviewed in 2017-2019 by a review group including local and central government landlords and associations. Following consultation a new EESSH2 milestone was confirmed as follows:

- ***All social housing meets, or can be treated as meeting, EPC Band B (Energy Efficiency Rating), or is as energy efficient as practically possible, by the end of December 2032 and within limits of cost, technology and necessary consent.***
- ***No social housing is to be re-let below EPC Band D from December 2025, subject to temporary exemptions.***

- 3.11** The 2032 milestone is to be supported by a formal review in 2025 to assess progress and confirm additional requirements of the 2032 milestone. Air quality and Environmental Impact will be included as part of that review.
- 3.12** Scottish Government state that EESSH2 will help remove poor energy efficiency as a driver for fuel poverty and contribute to achieving the Scottish Government's ambitious climate change emissions reduction targets. It is also designed to support the Energy Efficiency Scotland vision for homes and buildings that are warmer, greener and more efficient, and a housing sector that helps to establish a successful low carbon economy across Scotland.
- 3.13** The scope of the EESSH is self-contained homes, including a full range of facilities for the use of occupiers, provided for the purpose of social rents, and usually subject to tenancy agreements based on the model agreement for secure tenancies. This includes sheltered housing, vacant property, property marked for demolition, and secure tenancies under mortgage to rent scheme.
- 3.14** The scope excludes the following types of housing:
- Houses purchased by former tenants (separate energy efficiency standards will be introduced);
 - Hostels with common facilities for food preparation (may be subject to HMO)
 - Intermediate or mid-market rents (subject to standards for private rented housing)
 - Mortgage to shared equity (standards will apply)
 - Commercial sub-lets (standards will apply)
 - Amenity blocks for Gypsy/Traveller sites (Standards apply)
 - Houses that meet EPC Band B
- 3.18** The EESSH2 milestone of 2032 recognises that band B will not be met for all stock. However, this is acceptable, provided all reasonable efforts have been undertaken to improve the energy efficiency of the stock. Where housing cannot be brought up to band B with existing technology at reasonable cost the landlord must be satisfied that the energy efficiency of the house has been improved as much as practical in the circumstances. To demonstrate this, the landlord should make an assessment of houses, or groups of houses, in their stock, which in their judgement cannot be brought up to EPC band B, to show how they have decided that those houses have been made as energy efficient as possible, and why they consider any additional improvements to be either, technically non-viable, non cost-effective or unlikely to secure necessary consents.
- 3.19** Government modelling suggests that it could cost a total of **£3.4** billion to bring all in-scope social housing up to EPC band B using existing

technology. Scottish Government states that while funding options should be explored, it highlights that many measures will require to be funded from the landlord's own resources. Ultimately this means paying for measures out of rental income in a way that does not exchange fuel poverty for rent poverty.

- 3.21** The 2032 milestone has been developed so that no exemptions should be needed. By then, landlords are expected to be able to demonstrate that all their houses meet EPC band B, can be treated as meeting EPC band B, or are as energy efficient as practically possible.
- 3.22** From 2025, 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.

3.23 Existing Housing Estate Condition

Midlothian Council (at today's date) has a stock of 7230 homes. The Council's Annual Return on the Charter (ARC) for 2019/20 highlights 85.5% of the council's housing stock (5926 properties) would meet the EESSH standard by 2020. This is close to the Scottish average. 567 properties (8.2%) of the housing stock did not meet the standard with 434 properties (6.3%) of the housing stock either exempt or unknown.

- 3.24** The housing property profile has been aggregated into a range of architypes:

Table No 1

Midlothian Housing Architypes	Number	%
Bungalow	74	1.0
Ground Floor 4 in a block	867	12.2
Upper Floor 4 in a block	811	11.4
Ground Floor Flats	418	5.9
Upper Floor Flats	721	10.1
Terraced Houses	1699	23.9
Semi or end Terraced Houses	2223	31.2
Maisonettes	9	0.1
Amenity Housing	296	4.2

EPC Band (Points)	Number*
Band C (69-80)	3234
Band D (55-68)	2412
Band E (39 -54)	248
Band F (21 – 38)	54
Band G (1-20)	8
<i>*This total is 1162 homes below total stock as excludes homes that are EPC B or above (new build), buy backs and 120 unknowns (currently being checked)</i>	

- 3.26** Decarbonising the existing stock to meet even just EESSH2 will present significant challenges to the Council, not least to ensure action to address fuel poverty doesn't impact adversely on rent poverty.
- 3.27** A review of the Council's housing stock confirmed up to 11 different construction types. While this consists mainly of standard construction types, it also includes 1829 properties of non-traditional construction, such as Blackburn, BISF and Swedish Timber. Each of these construction types are classed as "Hard to Treat" homes and will require bespoke solutions
- 3.28** Approximately 6% of the housing stock fails to meet band D which means that under EESSH2, these could not be re-let until improved. Prioritisation of these houses should be a focus ahead of 2026.
- 3.29** Standard measures for improvement of Energy efficiency in the Council's stock has traditionally included new double glazed windows, loft insulation and energy efficient doors. Further measures may include, Solar panels, battery storage, floor and wall insulation. As time moves on, further innovative solutions may appear and will need to be reviewed regularly.
- 3.30** Capital investment in existing stock will need to span multiple capital planning periods and will include replacement cycles. The indicative total investment is expected to be greater than **£150m** to bring stock to EPC B. The cost to bring stock to a level that could be considered net zero will be higher than this, given that this will require homes to be moved to alternative heating systems and away from gas boilers. It will be essential to assess the impact of funding these works in rent increases on rent affordability and any relative benefits that arise through energy bill savings.

New Council Housing

- 3.31** Emissions from buildings are responsible for approximately 20% of Scotland's total greenhouse gas emissions. Energy efficiency buildings reduce the demand for heat and is a significant factor in reducing fuel poverty. The Council needs to ensure that demand for heating is as low as possible and the heat source is as low carbon as possible.
- 3.32** The Scottish Government are reviewing the energy standards which are included in Building Regulations. These will improve the energy efficiency of new buildings and include measures in support of the move to low carbon and renewable heat. These new regulations are expected to require all new buildings to use heating systems which produce zero direct emissions at the point of use from 2024. (there will be no new mains gas connections)
- 3.33** The Midlothian Council Housing Design Guide to 2030 will be a valuable tool to ensure our new build Council housing stock is as energy efficient as practical. (see Appendix 1).

Energy Efficiency Delivery Plan Proposal

- 3.34** To fully understand the challenges ahead and route to delivery, the proposal is to produce a fully costed Energy Efficiency Delivery Plan (EEDP) for the Council's existing social housing for approval by Council in December 2022.
- 3.35** This Plan will include a specific programme of works to traditional and non-traditional housing stock to inform the level of investment requirement. Other Housing Associations, including Melville Housing Association, with a shared vision will be asked to work closely with the Council and adopt a similar plan to ensure a coherent approach to social housing across Midlothian is taken.
- 3.36** The Council will need to procure additional expertise from specialist consultants and will benefit from close working on the Plan with Midlothian Energy Ltd and with Changeworks who will be assisting Council with LHEES.
- 3.37** The Structure of the Plan to be reviewed in the inception stage of the project is expected to include:

- Introduction and Background
- Vision and Strategic Links
- Ambitions and Targets
- Regulatory regime
- Existing Position
- Scale of the Challenge
- Options Appraisal
- Preferred Option
- Detailed Costed Programme
- Sensitivity Analysis
- Investment Principles
- Risk Management and Contingency
- Procurement Strategy and Plan
- Communications Planning
- Explanation of zoning and priorities
- Monitoring and Reporting
- Resourcing Delivery Plan
- Partnership Working
- Review Process

Activities and Matters for Consideration

3.39 *Inception Period*

An inception period would include an initial period for the team and any advisers to review all the relevant background material. It would be followed by an Inception Meeting at the end of week one and an Inception Report produced by the Team by the end of week 4 for agreement by the Programme Board. The Inception Report would include a detailed programme of activities and risk log to ensure delivery of the final EEDP for agreement by Council in December 2022.

3.40 *LHEES Development*

It is assumed that the Midlothian LHEES will be under further development and a Project Manager for LHEES Strategy will assist the EEDP Team to ensure the Plan fits with the emerging overarching Heat and Energy Efficiency Strategy. The development of LHEES is crucial in identifying zoning for targeting action against fuel poverty and zones suitable for district heating. This is an area where close liaison with Midlothian Energy will be required by both the teams.

3.41 *EESHH Compliance, best practical option and Net Zero Carbon*

There will be a need for the team to identify and articulate the difference between these standards in order to feed in to a robust options analysis. In addition to this, given the climate change targets are extremely ambitious, many projects will require to over-perform to balance out projects/activities where achievement of net zero carbon is

unachievable. It will also be necessary to consider what might be reasonable to assume as a best practical carbon position.

3.42 Options Appraisal

From a legislative perspective, there is no do nothing option. It is proposed that, in principle, the Council will want to aim for its housing stock to be as energy efficient as practical by 2030 in line with Midlothian Council's climate declaration. However, as the detailed analysis has not yet been carried out to ascertain if this is feasible, it is suggested that the following options be appraised as part of this process:

- a) EESSH2 Compliance by 2032 (recognising it will likely fall short of net Zero Carbon)
- b) Compliance with net zero
- c) As energy efficient as practical by 2030

3.43 With the national and local net zero carbon targets and the regulations to follow the new Heat Networks Bill, all future developments from 2024 are expected to be required to adopt low carbon heating systems. This effectively rules out expansion of the existing mains gas infrastructure and natural gas boilers.

3.44 Role of Midlothian Energy Limited (MEL)

In addition to progressing projects under MELs Business Plan, MEL intends to provide support to Midlothian Council and Midlothian communities including through engagement in the Community Planning system and assisting develop energy policy and strategy.

3.45 MEL is also in a position to offer advice and provide services linked to the Councils Capital Plan developments. Various projects have been identified for consideration in the next 5 years of the MEL business plan and should be taken account of as part of the development of LHEES and the EEDP.

Table No 2

Project Name	Description/Potential
The Bush	Potential new network opportunity utilising various potential heat sources including data centre and mine water.
Penicuik, Straiton, Lasswade, Dalkeith, Eskbank	Potential for new heating networks. Consider in line with Council capital programme for all Council owned properties.
Building retrofit	MEL has the ability to provide energy performance contracting (energy efficiency, building fabric, energy generation) to meet Carbon requirements. Potential for Council and Association Housing and public and private sector non-domestic building stock.
Other non District Heat projects	Deployment of stand-alone heat pump technology for clusters of buildings where appropriate
Heat storage	Potential for heat storage in main shaft at Monktonhall to improve performance of heat Millerhill network.
Electric Vehicle Infrastructure	Potential to provide advice and assist manage new infrastructure- potential at Shawfair
Battery Storage	Investigate various opportunities.
New Council Building projects	Design energy performance contracting and power generation opportunities- consider opportunities for local heat networks
Existing Bonnyrigg DH	Advise Midlothian on maintenance arrangements and review of network. Investigate upgrading to low carbon heating. (not necessarily district heating)

3.46 Governance

A Project Manager will report through the existing Council governance arrangements:

- ✓ Midlothian Council (December)
- ✓ Housing Programme Board (Every 6 weeks)
- ✓ Capital Plan & Asset Management Board (every 6 weeks)

4 Report Implications (Resource, Risk, Digital)

4.1 Resource

Human Resource

Existing staff resource will be utilised with support from external advisers.

Financial Resource

The appointment of consultants to create a wider project team, to provide advice, ascertain scope of works and level of capital investment, will require initial one-off funding of £0.070 million. This initial cost can be met by the Housing Revenue Account, which financial modelling suggests is affordable.

This report also identifies that extremely challenging potential capital investment of **approximately £114.760 million** (today's prices) will be required to meet just legislative requirements. This excludes costs related to this process such as tenant decant.

The projected rent increase for the current approved capital plan to remain affordable is 1.40% for 2023/24 – 2036/37. Assuming there is no grant funding available the additional investment of £114.760 million will require rent levels to increase by a further 2.3% to 3.7% to ensure the project remains affordable to the HRA.

4.2 Risk

There will be a detailed risk register produced and maintained for the construction/implementation phases, as part of the Delivery Plan. This will include consideration, after market sounding, of availability of construction contractors and materials.

For the period of this current proposed project to end of December 2022, key risks will relate to timescales and budget. The project team will need to be freed up as necessary to drive the project with input from external advisers.

Should the recommendations of this report not be agreed by Council, there is a high likelihood of the Council not meeting statutory requirements and contributing as much as practicable to the climate change emergency.

4.3 Digital

No digital service implications

4.4 Ensuring Equalities

There are no equality issues in this service.

4.5 Additional Report implications (See Appendix A)

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Reducing the impact of climate change.

As identified in this report, implementation of an Energy Efficiency Delivery Plan will have a net positive contribution to the climate change challenge to reach net zero.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

The project would assist in addressing the impact of unchecked climate change and its detrimental effect on economic growth, risk of flooding and extreme weather. This will contribute significantly to the urgent actions required to address the Council's declared Climate Emergency.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

A.4 Delivering Best Value

The Delivery Plan will include a series of options for consideration with a proposed preferred option to deliver best value.

A.5 Involving Communities and Other Stakeholders

During the inception period of the proposed project a market sounding and engagement process will be agreed.

A.6 Impact on Performance and Outcomes

The Delivery Plan has significant potential to improve the quality of the Council's housing stock and will have a positive effect on meeting

Midlothian's overall carbon reduction targets in line with Midlothian Council's Climate Change Strategy and Action Plan.

Reducing Midlothian's greenhouse gas emissions and adapting the area to climate change impacts are outcome areas for improvement in the Single Midlothian Plan.

A.7 Supporting Sustainable Development

The project would contribute to the achievement of sustainable development set out in the Council's Sustainable Development Framework. It will have a positive impact on climate change.

The report is not a strategic action in terms of the Environmental Assessment (Scotland) Act 2005, and is therefore not subject to any strategic environmental assessment related requirements

APPENDIX B – Background Information

B.1 Background Council Reports etc

- Midlothian Council Net Zero Housing Design Guide