

CABINET (HOUSING) COMMITTEE

25 MARCH 2015

WINNALL FLATS – EXTERNAL WALL INSULATION

REPORT OF THE ASSISTANT DIRECTOR (CHIEF HOUSING OFFICER)

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RECENT REFERENCES:

CAB2513 (HSG) – Winnall Flats – Gas Main & External Wall Insulation - 18 September 2013

CAB2631 (HSG) – Housing Revenue Account Rent Setting 2015/16 and Budget/Business Plan Options – 26 November 2014

CAB2652 (HSG) - Housing Revenue Account Budget and Business Plan – 2015/16 to 2044/45 - 4 February 2015

EXECUTIVE SUMMARY:

The purpose of this Report is to update Members with the latest information in respect of the proposed External Wall Insulation (EWI) scheme to the four medium rise blocks of flats in Winnall Manor Road, Winnall (Dennett, Earle, Craddock and Braxton).

In the light of the updated information, the Report asks Members to confirm whether or not they still wish this scheme to be progressed, or for the ear-marked funds to be re-directed to other higher priority or broader-based improvement schemes.

RECOMMENDATIONS:

1. That the scheme be set aside and the funds re-directed to other higher priority projects.
2. That, at a future meeting of this Committee, the Assistant Director (Chief Housing Officer) confirms where the funds originally ear-marked for this scheme will be used.

CABINET (HOUSING) COMMITTEE25 MARCH 2015WINNALL FLATS – EXTERNAL WALL INSULATIONREPORT OF THE ASSISTANT DIRECTOR (CHIEF HOUSING OFFICER)DETAIL1. Purpose of the Report

1.1 The purpose of this Report is to update Members with the latest information in respect of the proposed External Wall Insulation (EWI) scheme to the four medium rise blocks of flats in Winnall Manor Road, Winnall (Dennett, Earle, Craddock and Braxton). The Report reviews and discusses the key issues surrounding the scheme and asks members to decide whether or not they still wish this scheme to be progressed in light of the ECO funding changes and when compared against other competing, and broader based, improvement schemes.

2. Background

2.1 At Cabinet (Housing) Committee on 18 September, 2013 (CAB2513 (HSG) refers) it was resolved:-

- a) That, in respect of the new gas main to the blocks, a Direction be made under Contract Procedure Rule 2.4a and approval be given to the Assistant Director (Chief Housing Officer), in consultation with the Head of Legal Services, to enter into contract with SGN in accordance with the approach and proposals outlined in the report.
- b) That, in respect of the EWI project to the blocks, a Direction be made under Contract Procedure Rule 2.4a and approval be given to Assistant Director (Chief Housing Officer), in consultation with the Head of Legal Services, to enter into ECO funding agreement with British Gas (BG) in accordance with the approach and proposals outlined in the report.
- c) That £0.790m already approved to fund improved heating systems at Winnall flats now be included within the 2014/15 and replacement heating systems planned for 2014/15 be brought forward to the current year's programme.
- d) That the Committee approve, for the purposes of Financial Procedure Rule 6.4, total spending of £1.026m for the EWI scheme to be funded from the 2014/15 Capital Programme for External Envelope Works, subject to a contribution of £0.392m ECO funding from British Gas being confirmed.

- e) That a contribution of no more than £250 be sought from leaseholders towards the costs of the EWI works.
- 2.2 In respect of recommendations a) and c) above, the gas main was successfully brought into the four blocks and good progress has been made with the installation of gas heating systems to the individual flats.
- 2.3 In approving the installation and costs (£315k) for the new gas main, Members were keen that officers made every effort to encourage qualifying tenants to apply for assistance under the SGN Assisted Connection Scheme. Officers were able to encourage 63 qualifying tenants to apply under the scheme and this reduced the cost of the main by £153k to £162k.
- 2.4 Recommendations 2, 4 & 5, in respect of entering into a direct ECO funding agreement with BG for the proposed EWI, were originally proposed and approved for the following reasons:-
- a) BG were offering a fully “managed” proposal which meant, in short, they assumed the full responsibility and risk for the project.
 - b) BG would manage the delivery and ensure compliance and assessments are completed when required and in accordance with Ofgem requirements.
 - c) By assuming management control of the project, BG had more assurance regarding complying with Ofgem requirements. If, following completion, BG had failed to comply with the Ofgem requirements/deadlines there would have been no additional financial risk to the Council.
 - d) BG would pay for the works up front, and only seek payment from the Council upon practical completion of the works.
 - e) By avoiding lengthy tendering and statutory leaseholder consultation delays, the risk of losing the BG offer and ECO funding would be reduced.
 - f) The estimated total cost (£1.026m) represented reasonable value for money.
 - g) Property Services did not have the capacity or expertise in-house to manage this type of project.
- 2.5 Unfortunately, within a few weeks of Cabinet (Housing) Committee approving this scheme, BG withdrew their offer altogether. BG had corporately decided to concentrate on their much larger schemes which provided larger carbon returns/savings.
- 2.6 This EWI scheme has not progressed since BG`s withdrawal. In the absence of the external grant funding, this improvement scheme has remained a relatively low priority for the Property Services Team. Property Services have struggled for some time now to deliver the significant increases in standing

repair and maintenance workload since the advent of self-financing, so there has been no available resource or capacity to progress any other additional one-off major capital improvements schemes such as this. For these reasons, a third party consultant (Baqus) has been commissioned to assist officers in re-assessing the feasibility and viability of the scheme.

3. ECO funding

- 3.1 An explanation of what ECO funding is, and how it works, is comprehensively covered in CAB2513 (HSG) (para.7). The detail contained within that Report remains essentially unchanged, and therefore will not be re-iterated here.

4. Leaseholders

- 4.1 A number of the flats in each block are owned by private leaseholders, who purchased their flats from the Council under the Government's right to buy initiative. Of the 156 flats, in the four blocks, 22 are owned by leaseholders.
- 4.2 The impact on leaseholders and the Council's ability to recover costs is comprehensively covered in CAB2513 (HSG) (para.8). Again, the detail within that Report remains essentially unchanged, and therefore will not be re-iterated here.
- 4.3 CAB2513 (HSG) made it clear that were the Council to adhere to the statutory consultation process with leaseholders, it might not only jeopardise the offer from BG, but also lead to higher costs for both the Council and leaseholders. For these reasons, it was therefore recommended and approved that any prospective recovery from leaseholders be effectively waived, or absorbed, by the Council. Apart from the uncertainty for tenants, there is no current urgency to deliver this scheme, so if the scheme were still to go ahead it would be possible to adhere to the normal statutory consultation with leaseholders.
- 4.4 Clearly, the Council's ability to recover costs from leaseholders for these works lies in the terms of the individual leases. Having reviewed all the leases for the 22 No. sold under the Right To Buy scheme, the position is as summarised in Appendix 1.
- 4.5 Although the contribution or share of the cost from each leaseholder may be different (because the contributions are derived from the rateable value of the individual flats) all leaseholders have an equal duty to pay for general repair and maintenance costs to their block of flats. Amongst other things, this ensures the external enveloping elements of the building stay well-maintained for all. In contrast, the Council's ability to carry out and recover costs for improvements will be less straightforward. It will also be more controversial because whilst some leaseholders may not be legally obliged to pay anything for the EWI works, others most certainly are and they will receive very large bills (see para. 9 for detail) if the scheme proceeds.

5. Previous Capital Works

- 5.1 In addition to the heating systems, there has been significant investment in these blocks over more recent years.

The age and average approximate cost (per flat) of the significant capital elements to these blocks can be summarised as follows:-

	Cost (£)	Average Age (Years)
Kitchens	4,500	7
Bathrooms	1,900	7
Windows	2,400	24
Roofs	2,000	Earle - 7 Others - 4
Gas Main & Central Heating System	4,200	0
Total	15,000	

6. Windows

- 6.1 During the consultation carried out in 2012 (CAB2418 (HSG) refers), tenants requested that the windows be over-hauled. The windows are PVCu and, although a more recent inspection by officers would suggest the windows are somewhat "tired", they are not beyond economic repair. For these reasons, routine maintenance and ad-hoc replacements can continue to be an ongoing maintenance solution if deemed necessary for the foreseeable future.
- 6.2 However, if the decision is taken to proceed with the EWI scheme, then officers would recommend that the windows are replaced at the same time to avoid future disruption to the EWI and duplicated costs (i.e. associated with re-scaffolding the blocks to replace the windows when they do become due). If the windows are replaced at the same time as the EWI, it is estimated that this will cost an additional £468k for the four blocks.
- 6.3 The notional life expectancy of PVCu windows is 40 years. Having already contributed to replacement windows in 1991, some leaseholders will clearly argue that the windows are being replaced too early and will dispute and/or refuse to contribute to these costs. One approach could be to credit leaseholders for the unspent notional life of the windows (i.e. credit = $16/40 * £3,000 = £1,200$; net bill to leaseholder = $£3,000 - £1,200 = £1,800$), but the reasonableness of this approach may need pre-determination by the Leasehold Valuation Tribunal.

7. Tenant Consultation

- 7.1 Tenants and leaseholders were consulted in 2012 about their preferences for new heating systems. The result of the consultation was overwhelming

support for individual gas heating systems, and hence the new gas main and associated heating system changes to date.

- 7.2 As mentioned in para.6 above, the consultation also highlighted a common thread in terms of a need to overhaul the windows. Apart from the desire for new heating systems and for the windows to be overhauled, there were no other common requests for major repairs or improvements to these blocks.
- 7.3 Tenants and leaseholders have not been formally consulted on the EWI proposals because, apart from the possible change in the aesthetics of the building, this scheme would universally benefit all occupants with lower heating bills. The only negatives are the costs to the leaseholders and perhaps the opportunity costs for the Council of using the funds for other wider, broader-based, improvement schemes.
- 7.4 Tenants and leaseholders were written to in October last year confirming that the decision whether or not to proceed with the EWI scheme would be taken at this Committee. The only change to the programme communicated to tenants and leaseholders has been that officers felt the decision whether or not to proceed with the scheme should be taken by Members in advance of gaining the statutory approvals (e.g. planning permission; building regulations approval; etc.) and the competitive tendering exercise. Officers did not want to commit time and costs to either unless and until there was still confirmed support for the scheme in the light of the changes to the ECO funding and the effects on leaseholders.

8. ECO Funding

- 8.1 The estimated carbon saving is now approximately 1/3rd (from 3762 to 1224 tonnes) of the original BG scheme. This is because the blocks are now heated by the new gas boilers, whereas the original scheme was based on the electrical storage heating. In addition, the rate of funding is now approximately 1/5th (from £130 to £25 tonne) of the original BG scheme. The product of these two factors has effectively reduced the ECO funding from £0.392m to just £0.032m.

9. Estimated Costs/Benefits

- 9.1 The estimated costs for the scheme can summarise as follows:-

After ECO funding, for the EWI scheme only (i.e. excl.windows):-

Total estimated scheme costs	=	<u>£1.397m</u>
Estimated recovery from leaseholders	=	<u>£0.152m</u> (£8,955 ea per 17No.)
Nett scheme cost to WCC	=	<u>£1.245m</u> (£9,291ea per WCC tenant) .

After ECO funding, for the EWI scheme and windows:-

Total estimated scheme costs	=	<u>£1.865m</u>
Estimated recovery from leaseholders	=	<u>£0.192m</u> (£0.152m + (£3000*22*60%))
Nett scheme cost to WCC	=	<u>£1.673m</u> (£12,486 per WCC tenant) .

Estimated annual fuel bill benefit/saving afforded by the EWI

1 bedroom flat	-	£ 70 per tenant/leaseholder
2 bedroom flat	-	£110 per tenant/leaseholder

10. Summary

- 10.1 The original offer from BG, which included a very favourable ECO funding allowance, was withdrawn shortly after being approved by Cabinet. Even though the costs to leaseholders were effectively waived under this original proposal, the costs to the Council were still very significant.
- 10.2 For all intents and purposes, the current level of ECO funding for EWI to these blocks is effectively insignificant/zero. Therefore, if the scheme is to go ahead, the full market cost of carrying out these works will now have to be met and shared by the Council and current leaseholders. This scheme therefore attracts very significant costs for both the Council and leaseholders.
- 10.3 Apart from lower fuel bills and the positive carbon impact, this EWI scheme offers no other wider benefits to either the asset/building, or the tenants/leaseholders.
- 10.4 This scheme offers no payback for the Council.
- 10.5 The cost to the Council and leaseholders is very large and totally disproportionate to the anticipated reduction in annual fuel bills for the tenants/leaseholders.
- 10.6 If the decision were still to proceed, there is a good chance that leaseholders would challenge the reasonableness of that decision - particularly bearing in mind the cost of financing their contribution alone would far outweigh any estimated reduction in fuel bills. To mitigate this, the Council could unilaterally waive the leaseholder contribution (£0.152m) for the EWI altogether but this only heightens the disproportionate cost (per Council tenant) to the estimated reduction in fuel bills.

11. CONCLUSIONS

- 11.1 This scheme does not offer value for money.
- 11.2 The capital funds set aside for this scheme should either be re-directed to other, broader-based, improvement schemes (e.g. solar PV) that offer better value for money, carbon savings and lower fuel bills for tenants, or to other higher priority investment programmes (i.e. kitchen/bathroom renewals; New Homes; etc.).
- 11.3 This, and any other EWI schemes, should not be considered until such time as either the funding options become significantly more favourable, and/or when the other associated elements (e.g. roofs; windows; walls; etc.) require major capital maintenance/investment in their own right. The latter case may then warrant new consideration of a EWI solution because the Council would already be incurring some of the temporary access costs (e.g. scaffolding).

OTHER CONSIDERATIONS:

12. COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 12.1 Improving insulation levels supports the Council key priority of improving the quality of life for its residents.
- 12.2 The proposed EWI scheme is in accordance with the Council's Low Carbon Route map.

13. RESOURCE IMPLICATIONS

- 13.1 Provision and funding (£1.026m) was originally approved (CAB2513 (HSG) refers) for the EWI scheme from the 2014/15 capital programme and subject to a contribution of £0.392m ECO funding from BG being confirmed.
- 13.2 Provision and funding (£1.000m) has already been approved (CAB2631(HSG) refers) for carry forward from 2014/15 into 2015/16.
- 13.3 EWI insulation works of this nature need to be carried out during clement weather. It is estimated that 6 months will be needed to confirm the detail, seek and gain all the necessary approvals, carry out a competitive exercise and complete the statutory consultation process with leaseholders. Therefore, if the decision is taken to still proceed with this scheme, the works would not now realistically start on site until early 2016/17.
- 13.4 The existing capital provision (£1.000m) can be carried forward again from 2015/16 into 2016/17, but if the scheme does go ahead an additional £865k of capital approvals will be needed.

13.5 The current capital programme fully commits the HRA borrowing capacity (debt cap) by March 2019 and the additional requirement of up to £865,000 to fund this EW1 and windows project would result in either the removal of catch up works that were highlighted in the 2013 stock condition survey or the cancellation of a new build scheme.

14. RISK MANAGEMENT ISSUES

14.1 The original proposal from BG minimised the Council's risk (for the reasons outlined in para.2.4). Although many of these inherent risks can be mitigated and reduced through normal contractual measures and appropriate insurance cover, all these risks effectively transfer back to, and will need to be managed by, the Council if this scheme proceeds.

14.2 Although the estimated costs within this report are deemed reasonable, the scheme will still need to be subjected to a competitive exercise. A number of recent tendering exercises have shown this can sometimes be very unpredictable - not only in terms of the values of the tenders received, but also in the number of tenders received. It is likely that the latter will still very much depend on the prevailing ECO funding available at the time and the relative attractiveness of this scheme when compared to others (i.e. in terms of carbon saved).

14.3 There could be a legal challenge from leaseholders over the reasonableness of the Council trying to impose energy saving measures where the costs are totally disproportionate to the benefits. Leaseholders trying to service this cost could be significantly worse off.

15. TACT COMMENT

15.1 Due to the timing of the report and the TACT meeting, which was held after dispatch of the committee papers, it was not possible to obtain a response from TACT in time for inclusion in the report.

15.2 The paper will be discussed with TACT at its March meeting and TACT representatives will respond verbally at the Committee meeting.

APPENDICES

Appendix A - Summary of Lease Terms

APPENDIX A

Summary of Lease Terms for those flats sold under “Right to Buy”	
WCC rights/leaseholder obligations	No. of flats
Right of entry to carry out improvements, and an obligation on the leaseholder to pay a share of costs	10
Right of entry to carry out improvements, and an obligation on the leaseholder to pay a share of costs for "reasonable" improvements	2
No Right of entry to carry out improvements, but an obligation on the leaseholder to pay a share of costs	5
No Right of entry to carry out improvements, and no obligation on the leaseholder to pay a share of costs	5
	22