

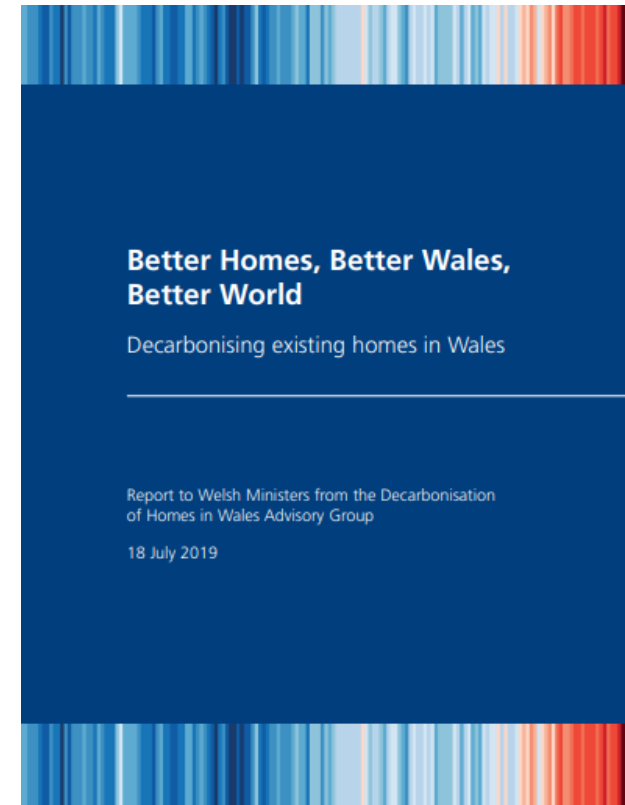
Financing Decarbonisation

Bethan Proctor

Policy & External Affairs Manager, CHCymru

Research into Financing Decarbonisation

- Welsh School of Architecture undertook research on costings and pathways.
- Assess impact of funding models on ability of HAs to invest in new and existing homes.
- Understanding of the funding gap needed to fund the decarbonisation of homes.



Research into Financing Decarbonisation

Three areas of the research:

- 1) Understand the impact of three funding models on the ability to fund decarbonisation
- 2) Understand the availability of other sources of funding
- 3) An analysis of funding models and impact on the financial capacity of the sector to build new homes.

Research into Financing Decarbonisation

- Cost of retrofitting understood from WSA data
 - 'Business as usual' retrofit and compared with 90% decarbonised retrofit.
 - Average worked out from WSA's 10 case studies
- **Average cost per unit of £18,445 inclusive of VAT.**
 - **Applying this to 230,000 units gives total cost of £4.2 billion.**

Research into Financing Decarbonisation

Treat with caution!

Overstated:

- Assumed all homes will require decarbonisations work
- Economies of scale not factored in
- Reduction in material costs not modelled
- Income from other sources not included

Research into Financing Decarbonisation

Treat with caution!

Understated:

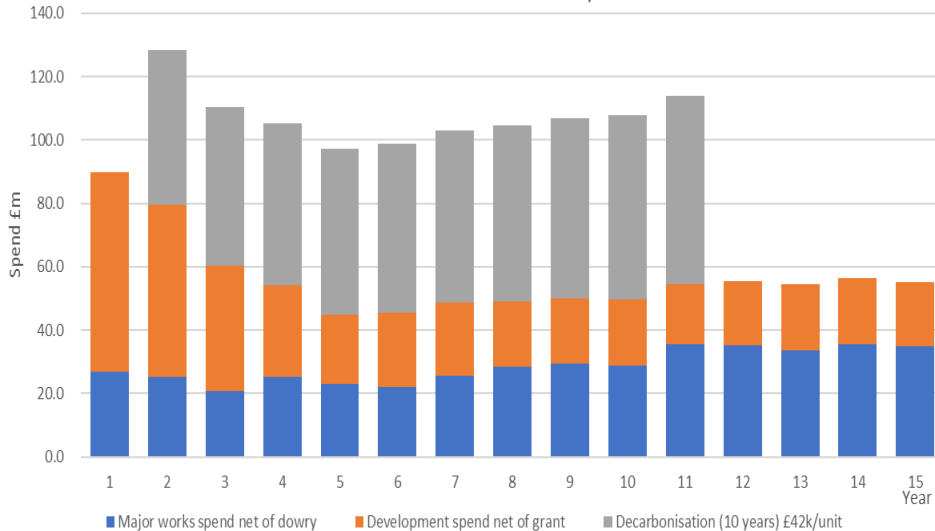
- Assuming all major repairs expenditure include provision for the improvement of thermal performance
- Excludes project management overheads
- Possible demand boom not factored in
- Decanting tenants not assumed

Findings

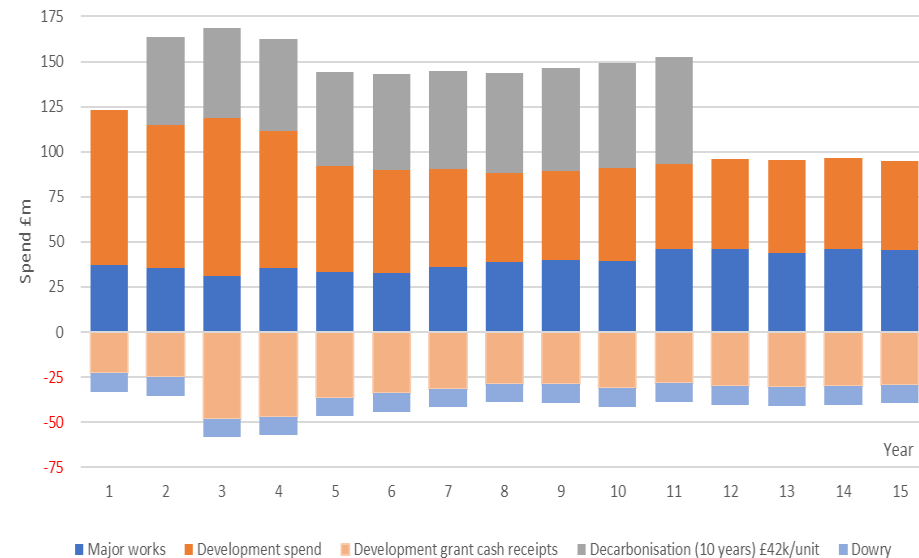
- Impact on business plans assessed by set of standardised covenants
- Even if 50% grant funded, decarbonisation programme presents major challenge to the financial plans of HAs
- Interest cover covenants stretched
- Covenants that include major repairs expenditure severely challenged
- Some not able to raise enough debt to fund the cost of the works
- Refinancing expensive to arrange

Financing New Development

Combined 5 case studies (incl. two dowry recipients)
(annual spend net of current level of grant receipts £m)
Decarbonisation costs £18k/unit



Combined 5 case studies (incl. two dowry recipients)
Annual spend £m. Decarbonisation costs £18k/unit



- Decarbonisation spend relative to major works & development doubles in net expenditure
- Even with grant, decarbonisation spend exceeds planned major works spend in HA business plans
- Impact on HA's vary

Balancing Decarb & New Build

SWOT analysis of funding options for decarbonisation

Funding model	Strengths	Weaknesses	Opportunities	Threats
Grant	<p>Certainty (for the duration of an agreed programme)</p> <p>Cash</p>	<p>Practical questions about implementation</p> <p>Likely administrative requirements</p> <p>Some HAs need more grant than others – hard to devise a fair allocation method</p>	<p>Grant makes a higher level and/or number of retrofits affordable</p>	<p>WG budget pressures from Whitehall</p>
Dowry	<p>Continuity of funding for LSVTs.</p> <p>Cash</p>	<p>Annual budget rounds can cause uncertainty (multi-year agreement preferable)</p>	<p>New source of funding for traditional associations</p>	<p>WG budget pressures from Whitehall</p> <p>Existing dowry funding may end as WHQS has been achieved</p> <p>What about LSVTs currently without dowry?</p>
FTC	<p>Flexible</p> <p>Low or zero interest</p>	<p>Counts towards gearing</p> <p>Has to be repaid, unlike grant – additional cash flows to be funded</p>	<p>Good availability of FTC funding from WG</p>	<p>HA lenders may be unwilling to accept FTC-funded stock as high quality security</p>

Alternative Sources of Funding

- **Green Finance Institute**
 - Green-leases – upfront costs recouped
 - Government Guaranteed Social Housing Finance
 - Property Assessed Clean Energy financing
- **Arbed**
 - Focuses on energy efficiency improvements to economically deprived communities
- **Innovative Housing Programme**
 - IHP 4 focus on MMC & Optimised Retrofit

Alternative Sources of Funding

- **Green Growth Wales**
 - Funding for energy efficiency projects
- **Renewable Heat Incentive**
 - Financial incentives to increase uptake of renewable heat
- **Energy Company Obligation**
 - Energy suppliers deliver measures to social houses with EPC E, F or G



Diolch. Thanks.

Bethan Proctor

Policy & External Affairs Managers, Community Housing Cymru

chcymru.org.uk

Twitter: [@chcymru](https://twitter.com/chcymru) | [@Bethan_Eluned](https://twitter.com/Bethan_Eluned)