



Association of Directors of
Environment, Economy, Planning & Transport

Briefing note

Feedback for DESNZ on the Home Upgrade 2 (HUG2) grant programme: a submission from ADEPT

March 2024

ADEPT

The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) is the voice of place directors in county, combined and unitary local authorities. We develop, support, and represent our members to make their places more resilient, sustainable, inclusive, and prosperous. Place directors are at the very heart of place-shaping, delivering universal services and leading partnerships to support their local environment, economy, and communities. They are responsible for providing day-to-day services such as local highways, waste and recycling, and planning. They develop the longer-term strategies, investment and infrastructure needed to make their places resilient, sustainable, inclusive, and prosperous. Place services are universal and are of critical importance to the wider prosperity and wellbeing of communities. They have high public visibility and value, and they deliver critical co-benefits to other council services.

ADEPT Energy and Clean Growth Working Group – November 2023

Several issues related to the HUG2 grant were shared at the ADEPT Energy and Clean Growth Working Group. An action was taken to pull together the issues from across several local authorities to share with the Department for Energy Security and Net Zero (DESNZ).

All the LAs contributing to this feedback remain passionate and committed to retrofitting homes. Collectively they represent a vast body of experience in delivering successful projects in this area over many years. We hope therefore to ensure that positive dialogue over future schemes can deliver better delivery and value for money.

This a summary of their responses and may not represent the views of everyone on the ADEPT Energy and Clean Growth Working Group and all ADEPT members.

Introduction

To date, HUG2 has not successfully delivered in terms of homes helped relative to funds allocated. Up until end November 2023, the HUG2 programme had installed 782 measures across 243 households.

There has been a growing frustration amongst those tasked with scheme delivery over many aspects of its structure and management by DESNZ. This has been expressed to ADEPT through a series of representations and workshops. As we approach the end of the first year

of delivery and with DESNZ working on a successor programme to HUG 2 (i.e. LARS), it felt timely to share some of these issues to support more effective future delivery.

In summary, the feedback is that HUG2 is very complex, inefficient, poorly structured, and overly prescriptive - it is too narrow in terms of both the eligibility criteria, allowable costs and the flexibility allowed in allocating funds. In addition, the way the funding is managed and distributed and the processes for managing the relationships between LAs/ project consortia and DESNZ has been difficult.

Summary of Issues

There are three broad areas where this, and future, schemes need to undergo significant change to increase the effectiveness of the funding available: Scheme Constraints; Financial Management; Relationship Management and Project Oversight.

1. HUG2 Scheme Constraints

Cost Caps & Measure Mix

- Some measures cannot be installed within the cost caps i.e., Air Source Heat Pumps (ASHPs) due to increase in costs.
- This in turn leads to eligible properties not moving forwards (unacceptable delay).
- There is an uncertainty over what is an acceptable cost for some measures i.e. External Wall Installation (EWI), regardless of headroom.
- This has a direct effect on marketing and property targeting.
- Contractors and residents lose interest in the scheme due to properties not progressing quickly.
- Urban areas with a high volume of flats are potentially missing out due to classifying High Heat Retention Storage Heating (HHRSH) as a Grade 'C' measure*.
- Mid Terrace Houses are potentially missing out due to less cost cap allowance than other archetype*.
- Reliance on the PAS 2035 'whole house' processes whilst not being able to support key fabric measures like EWI.

Batch Process

- No flexibility to allow properties to progress that do not adhere to the measure mix/cost caps.
- Headroom available on certain archetypes mean that those batches cannot proceed in a timely manner. They are delayed until a pool is collected of that archetype before proceeding to create the required capacity*.
- It is important to address this now to ensure the support is available to eligible properties before they "drop out".
- Flexibility to be given to allow us to meet the requirements at an overall project level rather than at batch level.

It is widely felt that the batch process does not work as it requires too much risk on the part of installers and managing agents in developing a pipeline of work. Considerable expenditure is required for assessment under PAS2035 with a large risk of developing ineligible leads or batched due to the constraints and complexities referred to above. Most projects have been taking forward very small batches or individual leads as a result and this very inefficient use of time and resource.

Eligibility:

- HUG2 is just for off gas households, there is currently no comparable funding for on gas communities - it is much harder to target, promote and deliver HUG due to the off-gas.
- Overly restrictive income criteria with little flexibility for the local variability of incomes and costs across the country*.
- Requirements around “completed homes” requiring the post EPC and Trustmark lodgement which can take up to 30 days post install, has meant that installers complete the works and are waiting for payment, putting pressure on managing agents / LAs.

There are many issues detailed here which have narrowed the pool of potential customers, the mix of measures which could be delivered, and which have caused difficulties for contractors to bring forward eligible work. Whilst some of these are being superficially addressed by DESNZ in their year-end review ahead of rolling out year 2 of the scheme many authorities remain frustrated that a more fundamental review of the scheme has not been carried out.

*(*Whilst we note some of these issues have partially been addressed at the mid-point review by re-grading the measure or increasing the cost cap, we still feel that the categorisations of eligible measures are unduly complex and can lead to unhelpful outcomes)*

2. Financial Management:

- HUG2 was sold to bidders as a 2-year project but is managed financially as separate 1-year projects. This has seriously impacted project consortia and authorities in setting up to deliver.
- Costs prior to any delivery in terms of procuring contractors setting up administrative structures and employing staff have been significant for those delivering the project. 15% of allocated project funding across 2 years allocated for A & A which should have been secure for bidders is now retrospectively subject to clawback by DESNZ where forecast installations are short. There isn't a single project which isn't far short of its original year 1 delivery forecast.
- This coupled with the emergent complexity of delivery (not fully set out or even decided upon at the point of applying for funding) has led to significant, unacceptable financial exposure for most HUG2 Projects.

The level of financial risk experienced for this scheme to the lead LA is greater than any previous energy efficiency grant scheme. Many LAs feeding into this process have indicated that it would likely impact their willingness to take on this type of project work in future if significant changes are not forthcoming, despite the huge need for significant action on retrofit.

3. Relationship Management and Project Oversight

Finally, the way projects have been overseen by DESNZ through a series of consultancy contractors has not worked well. Whilst many LAs confirmed positive relationships with their allocated Single Point of Contact (SPOCs), several issues have consistently been reported:

- SPOCs were often only allocated months into the project, and many projects have had as many as 3 different individuals to report and feedback to in a 9–10-month period.
- Justifiable queries often could not be answered by SPOCs at monthly meetings and had to be fielded back to DESNZ, leading to unacceptable response times often of more than 2 months for fairly simple issues.
- It has become very clear from discussions between Project Authorities that different SPOCs have given inconsistent advice, with some projects given more flexibility than others. The impression has been that the department and its advisers were often making decisions on issues ad-hoc.

In the past lead LAs had a good and direct relationship with allocated civil servants within the funding department who retained a genuine, realistic, and responsive approach with the projects they were managing. A more direct, responsive, and pragmatic relationship is needed for future project success.

We propose that LAs are given greater independence to manage funding for these initiatives over longer periods, allowing confidence by all parties to develop successful schemes.

All the LAs contributing to this feedback remain passionate and committed to retrofitting homes for energy efficiency and represent a vast body of experience in delivering successful projects in this area over many years. We hope therefore to ensure that positive dialogue over future schemes can deliver better delivery and value for money.