



CABINET – 25TH JANUARY 2023

SUBJECT: BRYN CARNO FUNDING UPDATE

REPORT BY: CORPORATE DIRECTOR OF SOCIAL SERVICES AND HOUSING

1. PURPOSE OF REPORT

- 1.1 To update members of Welsh Government's final decision on the funding settlement for the failed external wall insulation scheme on 86 properties at the Bryn Carno estate Rhymney. Caerphilly Homes submitted a refinancing grant funding business case to Welsh Government in February 2022. Cabinet is asked to note Welsh Government's decision and agree to increase the match funding that Caerphilly Homes will contribute towards the project costs from the Housing Revenue Account (HRA).

2. SUMMARY

- 2.1 In 2012 the Welsh Government funded ARBED 1 scheme approved an application submitted by United Welsh Housing Association, in agreement with Caerphilly CBC for energy saving external wall insulation (EWI) to be installed at Bryn Carno in Rhymney. This project was managed by United Welsh Housing Association as the Government agent for the ARBED 1 scheme and completed in early 2013.
- 2.2 Between 2016 and 2018 it became apparent that the EWI was defective exhibiting significant signs of water ingress and penetrating damp in the homes of the private owners, leaseholders and the Caerphilly Homes properties, that were part of the scheme.
- 2.3 Welsh Government were engaged regarding a resolution to the failed scheme and an investigation and report into the failed insulation was commissioned. This concluded that there should be a replacement scheme delivered to remedy the inherent design weaknesses of the scheme and aspects of poor workmanship and reinsulate the homes. This would ensure the original objective of energy saving was achieved, particularly important now that so many households face fuel poverty in the coming months and years.
- 2.4 After many months of debate about who was responsible and who should take forward the replacement scheme, as Caerphilly Homes owns 36 of the 86 properties, has detailed knowledge of this estate and a good relationship with the residents, it was proposed that Caerphilly Homes undertake a tenure neutral scheme which includes all properties within Bryn Carno.
- 2.5 Welsh Government wrote to the council and the local MP outlining that in principle they

will part fund the replacement scheme agreeing an in-principle award of £1.05million pending further details and have requested that a detailed five case business model is submitted to set out the funding required and how the scheme will be delivered.

- 2.6 After the business case was submitted Caerphilly Homes met Welsh Government to discuss their initial feedback. Amendments were made following this feedback and a revised business plan was submitted.
- 2.7 Caerphilly are committed to contributing to this remediation project, due to the significant impact of the failed EWI for tenants and residents and our housing stock, even though not responsible for the design and scheme management of the original project and therefore are seeking funding to remedy the situation within our stock.
- 2.8 Welsh Government officers wrote to the Head of Housing on 8th November 22 and subsequently sent a formal grant award letter on the 22nd of December to inform that the Minister for Climate Change has made a decision on the business case. However, the decision was to award funding of £1.903m which is only in relation to the remedial work on the 50 owner occupier properties affected in Bryn Carno. This therefore means that the Caerphilly Homes contribution needs to increase by £563,100 with a total contribution to the project of £1,195,800.

3. RECOMMENDATIONS

- 3.1 That cabinet note the update and decision by Welsh Government.
- 3.2 Approve the revised scheme, costs, delivery timeline and additional match funding contribution from the Housing Revenue Account (HRA) in respect of Council owned properties, to deliver the tenure neutral scheme by Caerphilly Homes.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 The failed EWI is having a significant impact on both the properties and residents, so the remediation works are essential to protect the health and wellbeing of residents and to secure the future integrity of the housing stock. Caerphilly Homes are best placed to deliver this scheme, procure the specialist advice and contractors to deliver the project for all the properties affected across the estate.
- 4.2 The grant award of £1,903,000 by Welsh Government covers the estimated works costs for all the affected private homes on the estate and the procurement of a PAS2035 consultant. The increased Caerphilly Homes match funding contribution will be made by the HRA and solely contribute towards the works on the Caerphilly Homes properties.

5. THE REPORT

Background

- 5.1 In the early 2000's, whilst Rhymney was a designated Renewal Area, the properties in Bryn Carno estate benefitted from a group repair scheme whereby the properties in private ownership were offered financial assistance to renew their main roofs and re-line the finlock gutters. The Council owned properties, under a planned maintenance programme funded by the HRA, also benefitted from roof renewal, window replacement and gutter re-lining.

- 5.2 During November 2012, United Welsh Housing Association, the scheme managers for Welsh Government scheme ARBED 1, sought areas within the Caerphilly County Borough that would benefit from energy saving measures such as external wall insulation (EWI). Bryn Carno estate was identified as one which would benefit, and the subsequent ARBED funding bid was successful, on condition that the scheme of works was completed by the end of March 2013. The EWI systems, using a Rockwool product, were installed to private and Caerphilly Homes' properties between January and March 2013 during periods of cold and wet weather using six different contractors.
- 5.3 During 2016, complaints were received from several residents and the local ward member that the render coat to several properties had started to de-laminate, flake and come away from base coat. Meetings were held between Caerphilly County Borough Council, United Welsh, and Rockwool to consider why the EWI had failed and possible rectification measures.
- 5.4 As Welsh Government had part funded ARBED, it was brought to their attention to establish a way forward. Welsh Government decided that all parties involved in the project needed to collaborate to determine how and why the EWI system had failed and establish a solution, following which, in March 2021 Curtin's were engaged by Caerphilly County Borough Council.
- 5.5 The Curtin's report identified several issues that contributed to the delamination of the EWI system, such as lack of a perforated base channel, the finlock gutters and not extending the rooflines which would have provided additional protection to the EWI rather than relying on finishing trims and sealants. To ensure both existing moisture and future water ingress are eliminated from the EWI system, it has been recommended that the defective EWI systems are removed in their entirety, along with the existing finlock gutters, to be replaced with new rainwater goods and EWI system respectively.
- 5.6 Following the report it was concluded that, in total, 68 houses would require comprehensive EWI replacement scheme along with 14 bungalows, with a further 4 properties potentially requiring a first EWI installation and associated works. The 36 Caerphilly Homes properties all require EWI replacement.

Delivery

- 5.7 As Caerphilly Homes owns a significant proportion of the properties in Bryn Carno, has detailed knowledge of this estate and has a good relationship with the residents, it is proposed that Caerphilly Homes undertake a tenure neutral scheme which includes all properties within Bryn Carno.
- 5.8 The scheme will be run by the Council's in-house grant agency service and maintenance and repairs teams, which would run the project in its entirety, including production of the tenders, selection of contractors, and oversight and supervision of to ensure works are carried out to an acceptable standard, and in line with technical guidance and specifications. A fee of 15% of the cost of works for this service has been included in the business case submission.
- 5.9 The scheme will be delivered in accordance with PAS2035, a specification for whole house or whole building retrofit. This is an approach to the installation of energy efficiency measures (EEMs) which considers the requirement of the entire building, both from a technical standpoint and considering factors like occupancy comfort. The

cost of this retrofit coordinator have been funded by Welsh Government in their final grant award letter.

- 5.10 It is recognised that costs are fluctuating significantly due to shortages and escalating costs of building materials and the limited availability of suitable contractors. The cost of procuring a specialist retrofit consultancy will be assumed within the shared service arrangement that the HRA pays for with regards to a corporate procurement function.
- 5.11 It was originally anticipated that the scheme could be delivered over two financial years. As the works to the properties were not possible in the wetter colder autumn and winter months, works would need to be carried out in the warmer summer months. The delay to decision making from when the original business case was submitted means that the final iteration of the business case requested the funding to be drawn down over three financial years.
- 5.12 The funding award states that it relates to the period 2022/2023 to 2024/25 and must be claimed in full by 31 March 2025 otherwise any unclaimed part of the funding will cease to be available. This enables the works to be carried out over two summers as requested.
- 5.13 In accepting the funding by signing and retuning the award letter, the council are also signing up to the funding conditions, quarterly draw down timetable and targets for completion of the works to the 50 owner occupier properties. As much as it is the intention to deliver a tenure neutral scheme concurrently, if there are delivery pressures following the tender and programming there will have to be a prioritisation on works to the owner occupier properties in advance of the Caerphilly Homes properties to mitigate this target risk. This will be avoided with a detailed risk management approach as all properties should be able to be delivered on the same timeframe.

Funding Bid

- 5.14 Caerphilly County Borough Council were asked by Welsh Government to submit a five-case business plan setting out the strategic, economic, commercial, financial and management cases for funding.
- 5.15 Caerphilly Homes submitted the case in February 2022 seeking funding of £1,849,000 for the remediation of the privately owned properties in anticipation of the need to renew the roofs of the properties to satisfactorily complete the project, and £54,000 to procure a specialist retrofit consultant in accordance with PAS2035.
- 5.16 Whilst funding of £632,700 was originally made available by Caerphilly Homes through the Housing Revenue Account for associated works to the council owned properties significant additional funding is required to fund the EWI replacement to the council properties. Funding of £563,100 was therefore also being sought for the replacement of the EWI to the Council owned properties and the associated internal remediation works from Welsh Government.
- 5.17 This has not been supported by Welsh Government and this contribution that was sought from Welsh Government will now need to be made by Caerphilly Homes from the Housing Revenue Account.
- 5.18 These estimated costs remain subject to change as the scheme is yet to be subject to a comprehensive tendering exercise and the market remains volatile. An assumed contingency of approximately 20% was included within the costs for this project which

is part of the financial risk mitigation given the significant increase in materials and labour costs that the building industry has experienced in recent years.

- 5.19 Although a tender process needs to be completed for these works, our benchmarking information on materials from Caerphilly Homes single source supply partner have provided for us some accurate up to date market intelligence. This has enabled us to be confident that although far higher than last year we have a good estimate of the price for the works required.

5.20 **Final funding summary and conditions**

- 5.21 Welsh Government officers wrote to the Head of Housing on 8th November 22 and subsequently sent a formal grant award letter on the 22nd of December to inform that the Minister for Climate Change has made a decision on the Caerphilly Homes Bryn Carno business case. However, the decision was to award funding of £1.903m which is only in relation to the remedial work on the 50 owner occupier properties affected. This therefore means that the Caerphilly Homes contribution needs to increase by £563,100 with a total cost to the Housing revenue Account (HRA) of £1,195,800.

- Total scheme cost £3,098,800
- Caerphilly Homes properties - £1,195,800
- Private properties - £1,849,000
- £54,000 consultancy for PAS2035
- Funding from WG - £1,903,000
- Council contribution from HRA - £1,195,800

- 5.22 Before any draw down of funding over 9 quarters starting January 2023 to March 2025, there are several pre-conditions to be met. Most notably the completion of the assurance statement. There are also requirements during the project, such as quarterly reporting and that the PAS2035 retrofit coordinator confirm the project is delivered in accordance with PAS2035 requirements and specifications for the exact works are met.

- 5.23 A warranty will also need to be provided to safeguard residents of any future failure and there will need to be a household maintenance handover pack on completion of the works for the residents. A copy of which should be sent to Welsh Government before issue to ensure it is suitably comprehensive and easy to understand.

- 5.24 These conditions will be met but have a cost implication that wasn't considered previously. The 20% contingency should be sufficient to cover these costs, if there aren't any significant cost overruns.

6. **Conclusion**

- 6.1 The failed EWI is having a significant impact on both the properties and residents, so the proposed remediation works are essential to protect the health and wellbeing of residents and to ensure the integrity of the housing stock. Caerphilly Homes is best placed to procure and carry out the works for this project given the history and knowledge of the estate and the management of a large proportion of the estate.

- 6.2 Ultimately, the bid for funding was not supported in full and the HRA will now need to contribute additional capital to deliver the works to the Caerphilly Homes properties.

There is no other alternative available to ensure that these properties have the energy saving and fuel cost saving insulation works that both the owner occupiers and Caerphilly Homes contract holders were promised some years ago. This is the quickest way to ensure that the significant water ingress issues experienced is finally remediated.

7. ASSUMPTIONS

- 7.1 The estimated assumed costs remain subject to change as the scheme is yet to be subject to a comprehensive tendering exercise and the market remains volatile. An assumed contingency of approximately 20% within the costs for this project which is part of our financial risk mitigation.
- 7.2 It is assumed in advance of any consultation with the private owners that they will be willing to have these works carried out to their properties. If they don't then some of the works could be compromised as properties are semi-detached.
- 7.3 An assumed fee of 15% of the cost of works for this service has been included in the business case submission for the in-house grant agency team that will project manage the full process, similar to the private sector grant and loans for works carried by the Private Sector Housing Team and some Caerphilly Homes planned maintenance work.
- 7.4 Although the bid is pre-tender for these works, benchmarking information on materials from Caerphilly Homes' single source supplier partner have provided for us some accurate up to date market intelligence. This has enabled us to be confident that although far higher than last year we have a good estimate of the price for the works required.
- 7.5 Should there be any further cost overruns going forward the council will commit to covering cost overruns from the contingency. Only in the instance that costs increase beyond all benchmark trends analysis will a conversation be had with WG on additional funding for the project.

8. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

- 8.1 There was a specific request to bid to Welsh Government for funding and the strategic case and impact is specific to the residents within the Bryn Carno estate therefore no wider IIA has been required for this project.
- 8.2 As the report proposes that 100% assistance be offered with no post completion conditions imposed regarding repayment an Integrated Impact Assessment is not required.
- 8.3 If the proposal is approved a comprehensive engagement exercise will be undertaken with the residents of Bryn Carno regarding the proposals, and consent sought from the individual private owners to proceed with the proposed scheme of works.

9. FINANCIAL IMPLICATIONS

- 9.1 The financial implications of this business case grant submission to the council and namely the ringfenced Housing Revenue Account have been articulated within the paper.

- 9.2 The total scheme cost is currently £3,098,800 with an estimated contribution from the HRA of £1,195,800. Given discussions have been ongoing for some time the HRA has currently already allowed for the original contribution of £632,700 in its capital budget. The additional £563,000 has been allocated to the HRA capital budget and has been funded from HRA balances.

10. PERSONNEL IMPLICATIONS

- 10.1 There are no implications here as the project will be managed by the existing Caerphilly Homes team.

11. CONSULTATIONS

- 11.1 All consultee responses have been included in this report.

12. STATUTORY POWER

- 12.1 Local Government Act 1972, Housing Wales Act 2014

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Consultees:	Cllr Shayne Cook	- Cabinet Member for Housing
	Cllr Andrew Whitcombe	- Chair Housing and Regeneration Scrutiny Committee
	Cllr Patricia Cook	- Vice Chair Housing and Regeneration Scrutiny Committee
	Cllr Carl Cuss	- Local Ward Member
	Christina Harrhy	- Chief Executive
	Dave Street	- Corporate Director Social Services and Housing
	Mark S Williams	- Corporate Director Environment and Economy
	Richard Edmunds	- Corporate Director of Education and Corporate Services
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