

A conceptual image featuring a lush green tree with a dense canopy, growing out of a tall stack of silver coins. The coins are arranged in a central stack, with several other stacks of coins scattered around the base. The background is a soft, out-of-focus green, suggesting an outdoor setting. The overall composition links nature and finance, representing the 'net zero' challenge.

FINANCE AND FUNDING TO MEET THE NET ZERO CHALLENGE SLIDE DECK

28TH FEBRUARY 2023 | 10:00 AM - 12:00 PM | ONLINE EVENT



Retrofitting Social Housing: A Funding Roadmap



Arun Poobalasingam, Head of Relationship Management and Business Development, The Housing Finance Corporation (THFC)



The Housing Finance Corporation

- THFC is an independent, specialist, not-for-profit finance company that makes loans to regulated Housing Associations (HAs), formed in 1987 to provide capital markets access to the new sector.
- The National Housing Federation and the (English) Regulator are both shareholders of THFC.
- THFC currently provides over £8.37billion of long-term funding to c.150 HA borrower groups throughout the UK.
- Growth in recent years has come primarily through subsidiary bLEND, which has issued £1.47billion across 4 different maturities.
- Early adopter and engaged advocate for the Sustainability Reporting Standard (SRS). The first and only lender to produce an SRS report on our loan portfolio.
- Borrowers range from 450 units to over 100,000.
- THFC, through its subsidiary Affordable Housing Finance, manages £3.2billion of loans guaranteed by the UK Government under a long-term Licence.

£8.37bn

group loan book

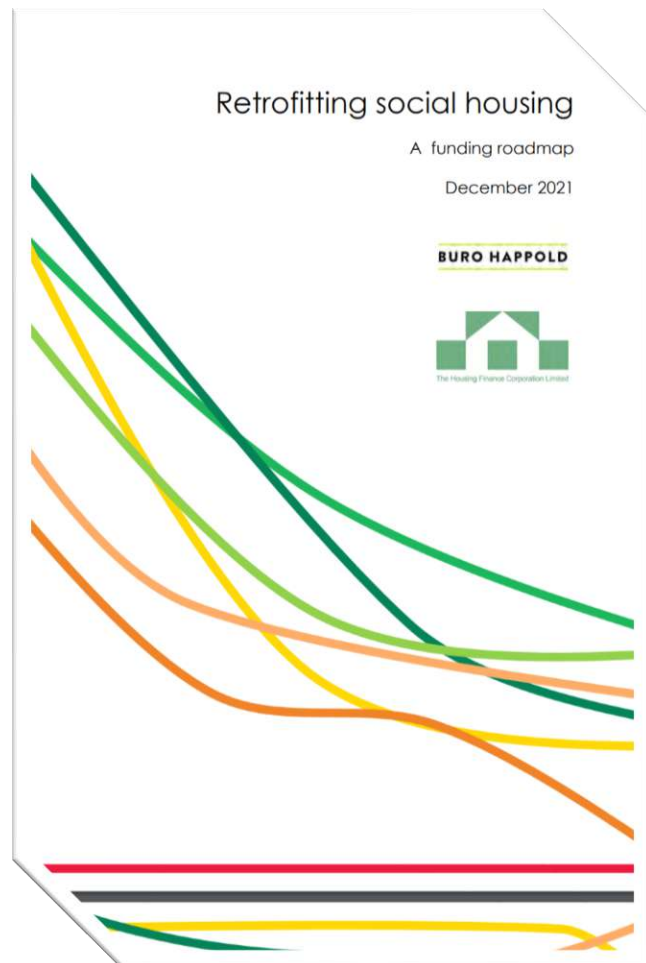


150 housing association
borrower groups





Report with Buro Happold



This report lays out a roadmap for funding the retrofit of social housing, covering legislation, retrofit options and financing models.



It advocates for the creation of a **Social Housing Retrofit Guarantee programme**, which would address the funding challenge and offer a roadmap to a greener future for social housing in the UK.



We are currently updating this piece of work, so look out for an updated version in the coming months.

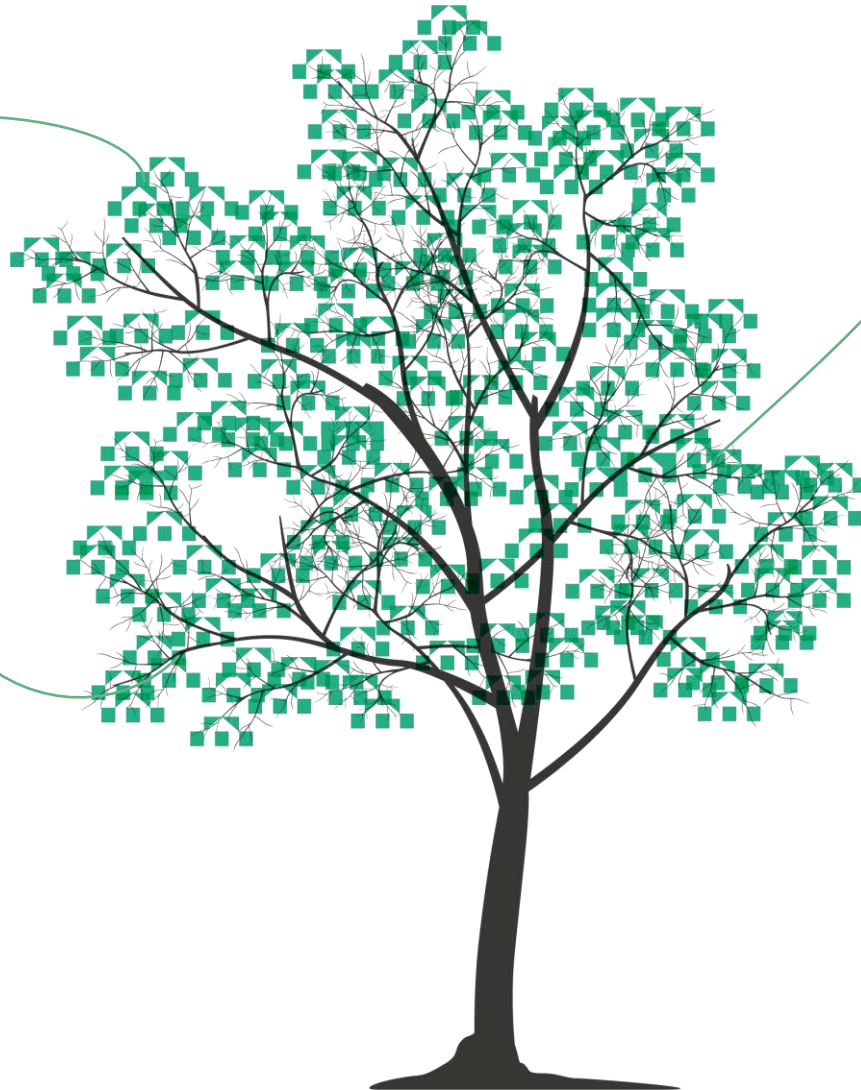


Three things needed for financial viability

Economies of scale, to reduce per unit capital cost

Guaranteed debt funding, to reduce the cost of borrowing to fund initial retrofit investment

Matched grant funding, to reduce the HAs' own cost





Return on Investment?

Energy savings achieved by some retrofits able to pay back the capital cost over a period of roughly 30 years

HAs will still need to choose whether to recuperate the energy bill savings of retrofit from the tenant

This payback achievable for deep retrofit (to EPC A) much longer than for fabric first (EPC C)



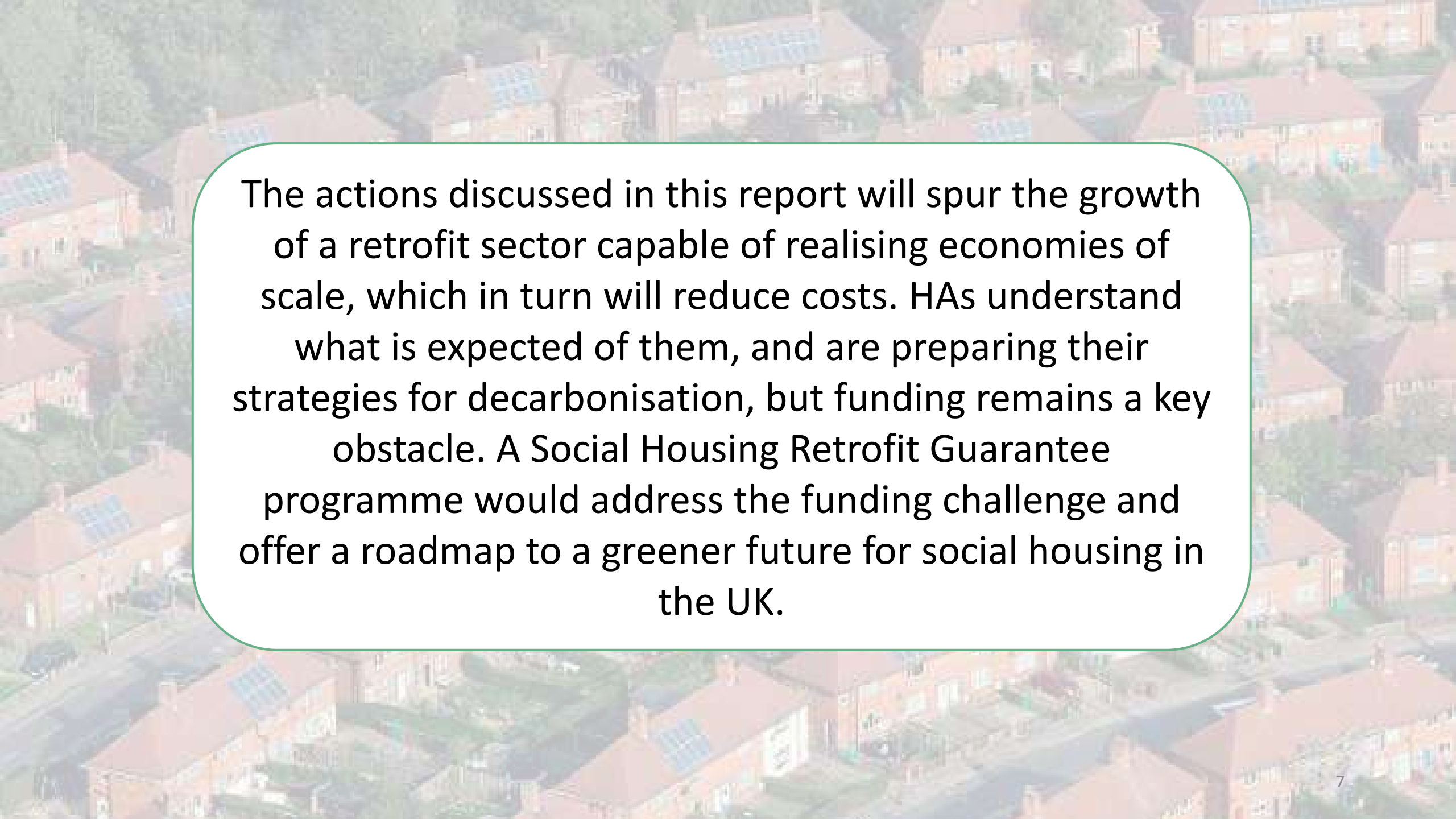


So, how we do get where we want to be?

It is possible for the decarbonisation of UK social housing to be achieved in a way that benefits both HAs and their tenants. For this to happen, however, two things are required:

Grant funding must be made more accessible and inclusive of deep retrofit projects rather than just fabric first.

A Social Housing Retrofit Guarantee programme should be initiated to ensure HAs can fund the cost of retrofit not covered by grant with affordable long term debt.



The actions discussed in this report will spur the growth of a retrofit sector capable of realising economies of scale, which in turn will reduce costs. HAs understand what is expected of them, and are preparing their strategies for decarbonisation, but funding remains a key obstacle. A Social Housing Retrofit Guarantee programme would address the funding challenge and offer a roadmap to a greener future for social housing in the UK.



Retrofitting Social Housing: A Funding Roadmap



Arun Poobalasingam, Head of Relationship Management and Business Development, The Housing Finance Corporation (THFC)

ESG & Sustainable Finance

A solution for retrofit?

28 February 2023

octopus real estate

A brighter way

Sector Finances

Sector Global Accounts 2022

- Sector under pressure from a range of factors:
 - Inflation
 - Cost of Debt
 - Investment in Existing Homes
 - Building Safety
 - Net Zero Investment
- Spend on existing stock increased by c.30% between 2018 and 2022 (+£500m on Major Repairs)
- Debt in the sector increased by c.23% over the same period
- Fair value gains restored the balance – will the pressure to invest in net zero start to affect Fair Value?
- Growing pressure between investment in existing homes and developing new ones

Sustainable Finance & Investment

Track record and investment

- Sector strength in Governance and Social Impact
- Established methods of measuring impact (SRSH & ERS)
- Sustainability opportunities and track record of the sector are widely acknowledged
- Adding value through environmental investment in decarbonisation is attractive to funders and investors

Choosing the right equity partner

Options for collaboration

- Demand for social housing is far outstripping supply
- Supply constrained by requirements for investing in existing homes
- Partnerships between not-for-profits and for-profits are emerging
- Key considerations:
 - Reputation
 - Financial Condition
 - Track Record
 - Regulatory Status
 - Complementarity
 - ESG



An Investor perspective on ESG

Impact and Sustainability

- Audited reporting is important (SRSR at HA level & ERS at Fund level)
- Thinking sustainability and impact, alongside ESG
- Measuring key impact objectives and telling a story is important
- Good governance crosses over significantly with investor requirements
- Increasing opportunities for “Place Based Impact Investing”

Where does retrofit come in?

Adding additional value

- Alternative to the “Core” Investment class of developing or acquiring and operating affordable homes
- Creating a “Value Add” proposition where additional value is created through the environmental improvement of a home
- Strong social impact credentials by improving the affordability of running an environmentally efficient home
- Large investor appetite to invest in this proposition
- “Missing Piece” is the delivery of environmental improvements to stock, at scale
- Embodied carbon and “zero carbon” are also important
- Capacity for significant investment if propositions can show their scalability

Octopus Group

A group of businesses investing in the people, ideas and industries that will help change the world

Founded in
2000

60% employee
owned

£12.8bn¹
under management

Certified



Corporation

- Octopus believes companies doing the right thing, in the long run, will be more valuable
- People increasingly want to buy from, work for, and invest with companies which understand what it means to make the world a better place

¹Source: Octopus Group as of 31 December 2022. Funds under management data includes undrawn commitments, funds under advisory, funds monitored and the Octopus Cash service. It also includes funds under management of Octopus Renewables Limited.

Octopus Real Estate

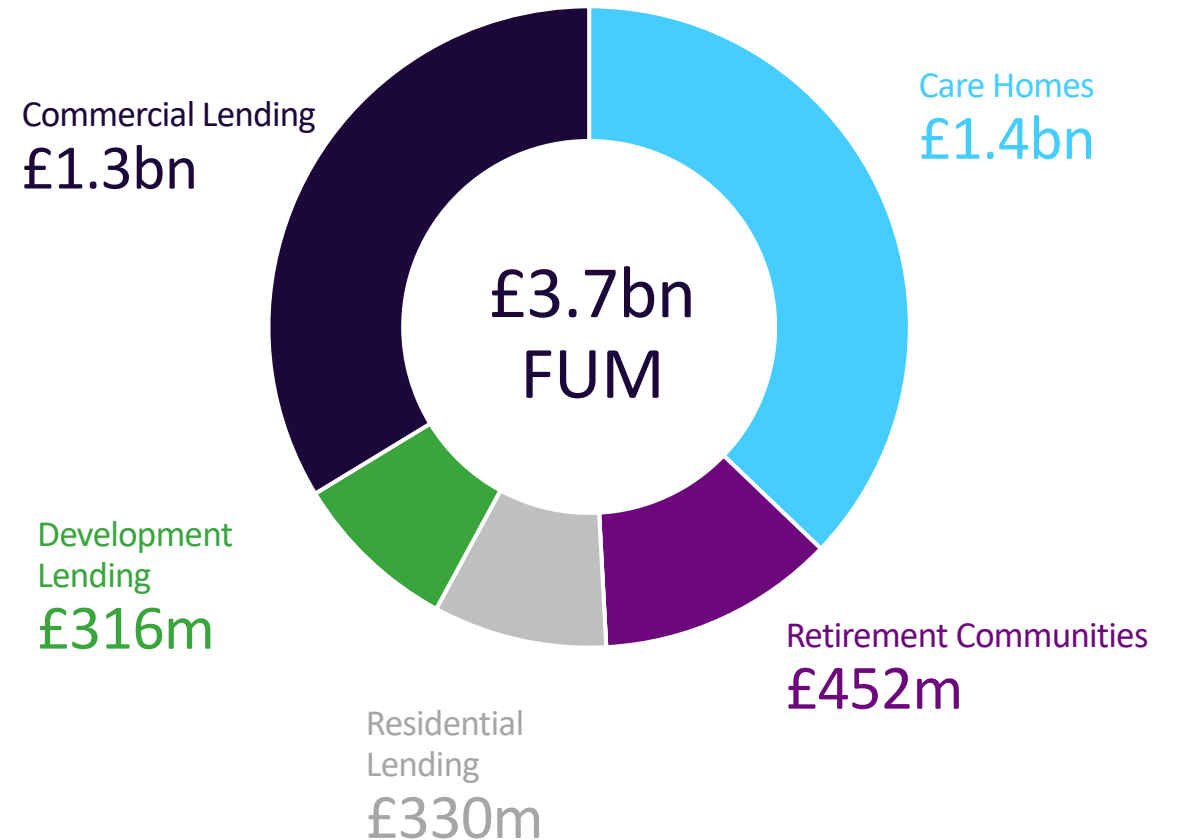
A leading specialist UK real estate investor and lender

Real Estate Investment

- Award-winning healthcare, later living and affordable housing investor¹
- 15-year track record with over £1.9bn of AUM across these sectors
- Senior team: 40+ years social housing experience
- Team of 30+ inc. in-house clinical assurance team

Real Estate Lending

- Leading UK non-bank property lender
- Over £6.2 billion / 4,400 loans completed since inception
- Partner with Homes England on £175m Greener Homes Alliance
- Team of 50+



Source: as of 31 December 2022.

¹Octopus Healthcare Fund (UK care home strategy) named MSCI 2020 Best Performing UK Unlisted Specialist Fund. Octopus Real Estate awarded HealthInvestor 'Property Investor of the Year' 2021, and HealthInvestor 'Seniors Housing Investor of the Year' 2021.



Affordable Housing Fund Objectives

- 1. Accelerating the delivery of genuinely affordable, quality homes** by providing a structure that Housing Associations can trust
- 2. Reducing fuel poverty** using Octopus's unique energy expertise
- 3. Delivering affordable housing for older people** as one of the UK's top later-living investors
- 4. Supporting levelling-up and place-based impact across England** with a novel co-investment structure

Funding Retrofit

Octopus Affordable Housing Fund

- Fund has aspirations to invest £1bn in affordable housing over the next 5 years
- Acquisitions, Development & Partnership to create new homes
- Ability to invest in retrofit without altering the tenancy type of a home
- Octopus (via our FPRP, NewArch Homes) acquires an asset with an EPC rating of C or lower
- Retrofit works forward funded by Octopus and delivered by the Housing Association
- Property continues to be managed by Housing Association on long term agreement
- Where the retrofit works are lower than the value of the property (EUV-SH) then the Housing Association retains co-ownership of the property and the associated share of long term income from the property (or where preferred, a payment in lieu of co-ownership with Octopus owning 100% the property)

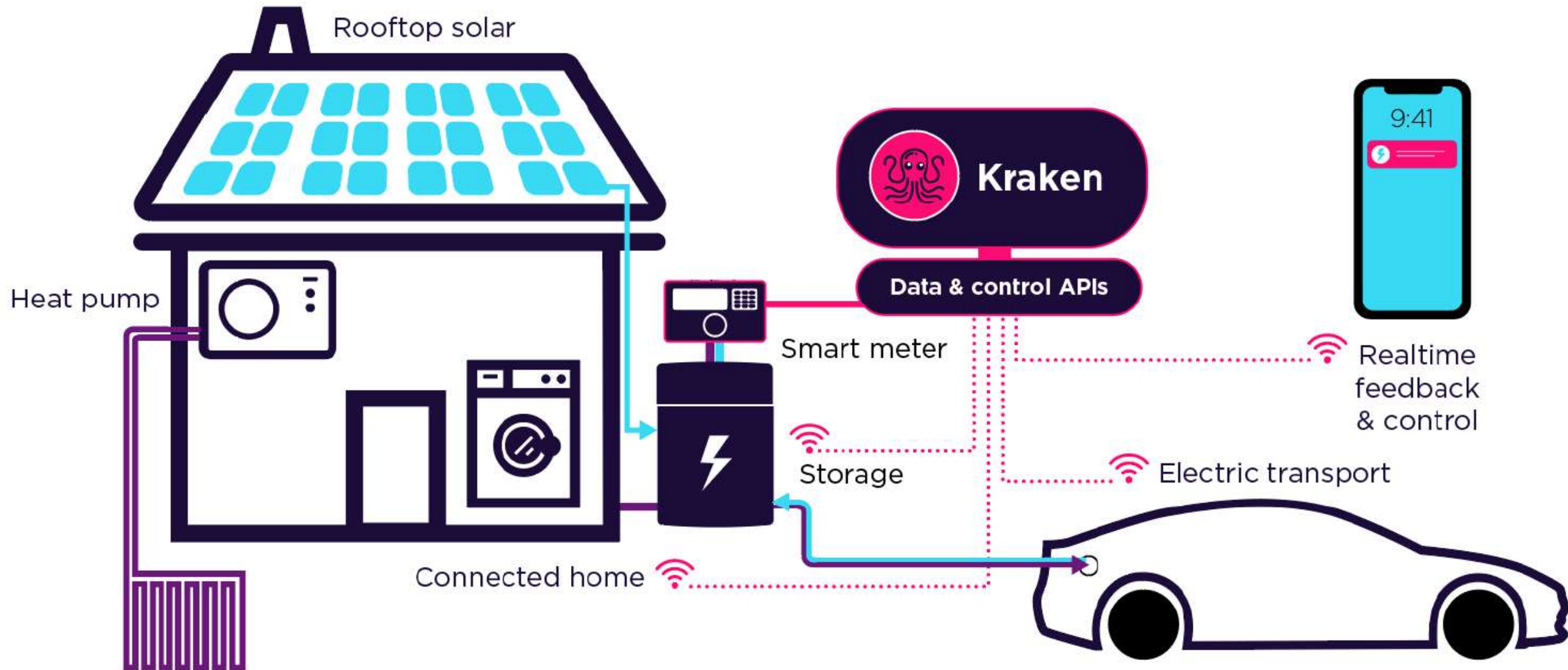
Greener Homes Alliance

Octopus Real Estate & Homes England

- £175m alliance between Octopus and Homes England
 - Loans between £1m-£20m
 - Homes must achieve a minimum EPC B
 - Homes achieving an EPC A rating benefit from an interest rate margin discount of 2.00%
 - Cheaper Finance
- PLUS*
- Expert Support (Octopus Energy & McBains)

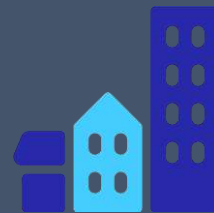
Net Zero homes

Means all electric and connected homes





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Funding, Finance and Retrofit: Lessons Learnt and Ongoing Support

Owen Daggett, Principal Consultant

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- making the **difference**

Who we are

Turner & Townsend is an independent professional services company specialising in programme management, project management, cost and commercial management and advisory across the **real estate**, **infrastructure** and **natural resources** sectors.

With **111 offices** in **45 countries**, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.



Our team in 2022 – we are now over 100 strong



The Retrofit Challenge



Government funding- headlines

- **Social Housing Decarbonisation Fund (SHDF)** over a 10-year period to improve the energy performance of social rented homes, on the pathway to Net Zero 2050
- Announced September 2022, **1.5 billion to improve the energy efficiency of 130,000 low-income households across the UK:**
 - up to £700 million of **funding** will be made available to local authorities to deliver HUG2
 - to £800 million of **funding** to support the installation of energy performance measures in social homes in England
- Build on previous schemes such as HUG1, Local Area Delivery and Green Homes Grant.



Department for
Energy Security
& Net Zero

Supporting bidders

Sustainability consultancy – our capabilities

BBC

Sign in



Home

News

Sport

Weather

iPlayer

Sounds

NEWS

Home | Cost of Living | War in Ukraine | Coronavirus | Climate | UK | World | Business | Politics | Tech

Science & Environment

Green Homes Grant scheme to insulate houses axed

27 March 2021



Climate change



NEWS

Home | Cost of Living | War in Ukraine | Coronavirus | Climate | UK | World | Business | Politics | Tech

Science & Environment

Heat pumps: Lords slam 'failing' green heating scheme

2 days ago · Comments



GETTY IMAGES

The Lords Committee called for more investment in engineers, citing Octopus Energy's new heat pump training centre

LA Readiness to Bid



- Strengths

- Consortium Management
- Application writing
- Past experience
- Planning permissions

- Challenges

- Private sector homes data
- Property Identification
- Retrofit Interventions
- Delivery Planning
- Procurement

Readiness to apply scores
5 = not ready to apply 0 = ready to apply



Home Upgrade Hub: Support



Webinars

We are hosting a series of webinars and briefings to help LAs develop their HUG 2 projects. These carefully designed sessions are led by experts, to help guide your progress through the key stages of the HUG 2 process and develop high-quality retrofit programmes.

[Learn More](#)



Masterclasses on-demand

A wide range of key information and expert advice is provided via a comprehensive series of on-demand masterclasses and insightful online events. Please continue to check back regularly for new content and the latest updates.

[Learn More](#)



Podcasts

Our podcast series provides key information about the scheme together with useful hints and tips to help Local Authorities develop successful HUG 2 projects.

[Learn More](#)



Toolkits

Our comprehensive collection of in-depth toolkits provide will guide you through the bid writing journey and help you develop an effective retrofit project. From start to finish, these accessible guides will give you the tools you need to reach your net zero goals.

[Learn More](#)

Home Upgrade Hub: Success



- **97% of** surveyed local authorities are **'likely' or 'very likely' to recommend our support service** to other local authorities
- **100%** of surveyed local authorities say our 1:1 support is **'useful' or 'very useful'**

Local authorities have scored our service:



Testimonials from local authorities:

*Despite our experience delivering similar projects, the HUB support **rapidly turned our idea into an application** and then **fine-tuned that application**'*

*The Support Coordinator and Technical Lead went **over and above** to support. The HUB was **instrumental in the application** and are already supporting with the DAC. **Effective communication consistently.***

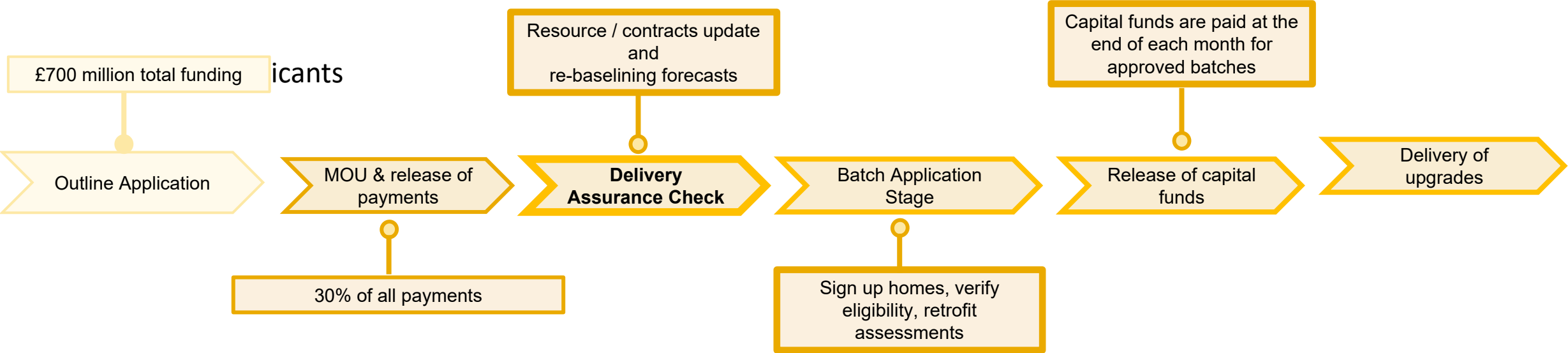


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Continuing our Support



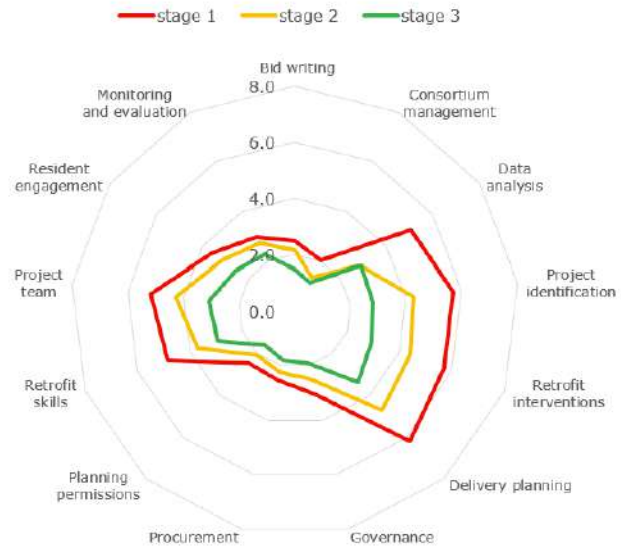
• For all other LAs

 info@homeupgradehub.org.uk
 homeupgradehub.org.uk

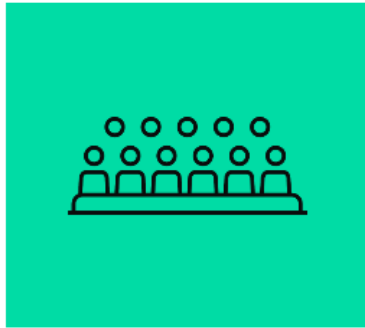
SHRA – reducing bidder risk

- Strengths
 - Planning Permissions
 - Procurement
 - Consortium Management
 - Bid Writing
- Challenges
 - Data analysis
 - Project Identification
 - Retrofit Interventions
 - Retrofit Skills

National average risk profile for stage 1, 2 & 3



SHRA Support



Webinars

We are hosting a series of webinars, workshops and briefings to help social housing providers develop their bids for the Social Housing Decarbonisation Fund (SHDF). These tailored, expert-led sessions will guide your progress through the key stages of the SHDF bid process and help you to develop high-quality retrofit programmes.

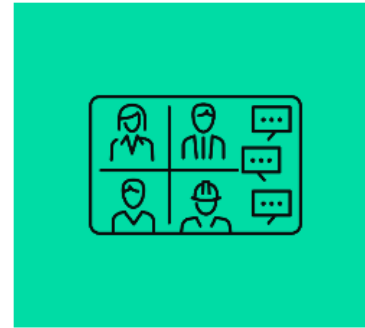
[Learn More](#)



Masterclasses on-demand

Access a wealth of information and expert advice through the SHRA's comprehensive collection of on-demand masterclasses and insightful online events. We're adding new content all the time so check back regularly for the latest updates.

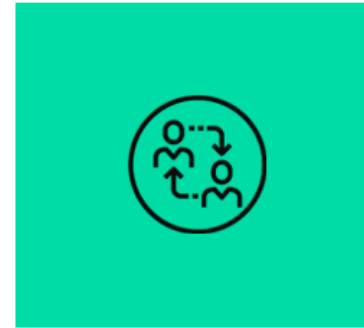
[Learn More](#)



Podcasts

Our podcast series will help social housing providers develop their bids for the Social Housing Decarbonisation Fund (SHDF).

[Learn More](#)



Retrofit Essentials

Retrofit Essentials is an eight-week programme designed to provide social housing professionals with the essential knowledge needed to bid for the next wave of the Social Housing Decarbonisation Fund (SHDF).

[Learn More](#)

SHRA: Success

- **96%** of surveyed social housing providers feel **‘prepared’ or ‘very prepared’** to **bid for the next SHDF wave**
- **96%** of surveyed social housing providers say they are **‘likely’ or ‘very likely’** to access the SHRA **for further bid and retrofit support**

Social housing providers have scored our service:



Testimonials from Registered Providers:

*“All of the staff were **friendly, receptive, and helpful**. It was great to be able to ask questions and work with someone on the bid.”*

*“The support received especially through the manager appointed to our consortium has been **invaluable**. She has guided us through various issues and been available for 1:1 support when needed. **SHRA has been instrumental** to what we will hopefully be a successful bid.”*



info@socialhousingretrofit.org.uk



socialhousingretrofit.org.uk

Continuing our Support

Unlocking the retrofit potential of housing providers

Our tailored approach to kickstarting your first steps towards retrofit follows a simple four step process.



Onboarding

This is the first stage where we will carry out a brief diagnostic of your organisation and set out an agreed action plan.



Discovery

Here you will share data and information with us to review and analyse. This, combined with staff consultation, will help us identify gaps in data and capability



Strategy

At this critical stage we will agree targets, identify a business case and co-create a high-level strategy, including cost analysis and programme structure.



Implement

The final steps sees the team provide governance and embedded resource (if needed), as well as identifying stakeholders and training needs.

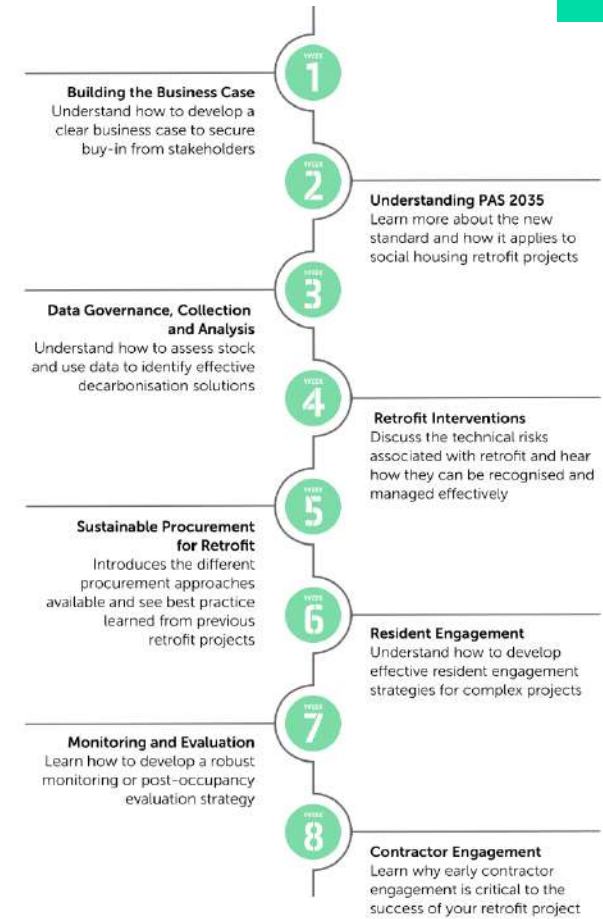
Continuing our Support

Retrofit Essentials

Retrofit Essentials - register interest (8 May - 3 July 2023)

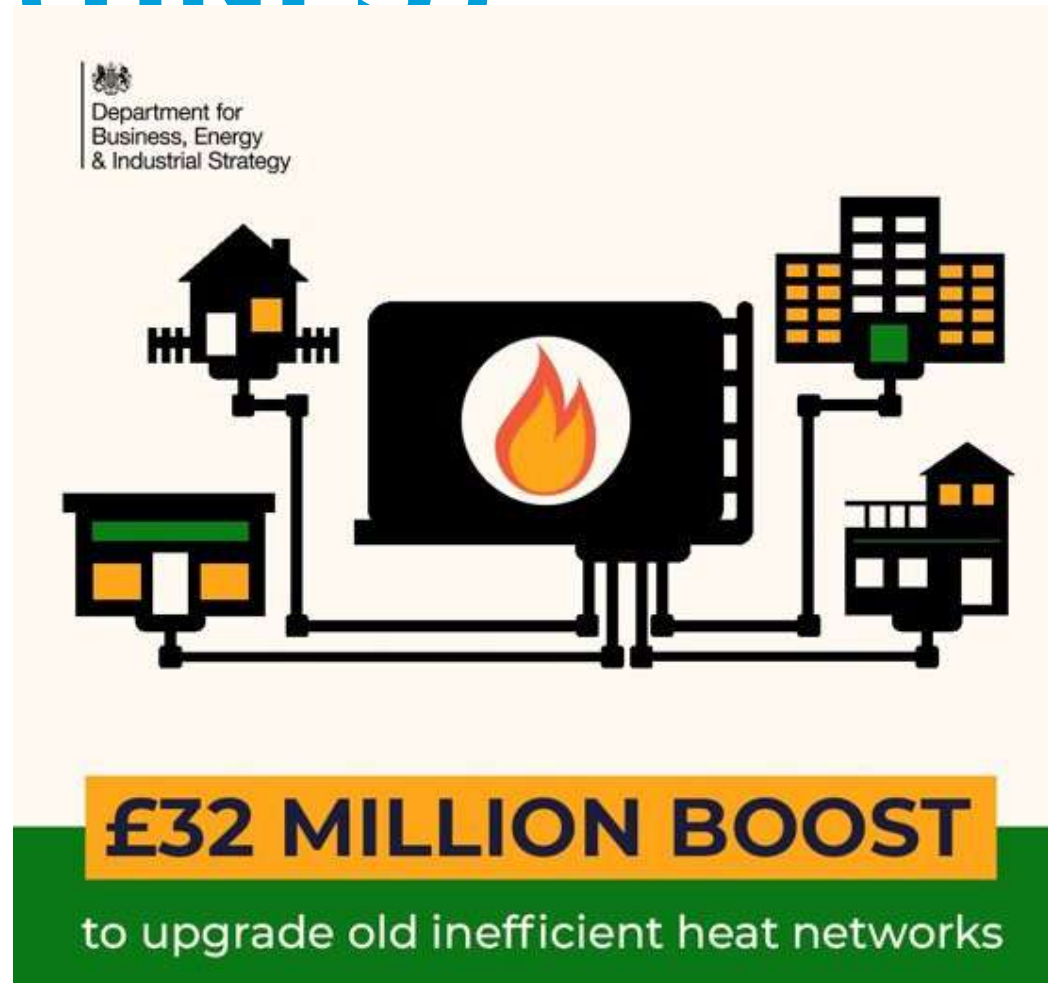
<https://socialhousingretrofit.org.uk/knowledge-hub/latest-news-and-updates/retrofit-essentials>

**SOCIAL
HOUSING
RETROFIT
ACCELERATOR**



Heat Network Efficiency Scheme (HNFS)

Sustainability consultancy – our capabilities



Applying for funding

- Local Authorities, Housing Associations, Universities, and NHS trusts can apply

Process:

- Applicants submit an Expression of Interest to hnes@gemserv.com
- Applicant details sent to Turner & Townsend, we then set-up a diagnostic call
- Action plan created
- Possible second call to review final application (strategic bids only)

Our services



Strategy



Net-zero and sustainability strategy development to inform your corporate approach

Innovation and business model development to help you to respond to changing regulations, technologies and resident demands

Tested delivery models to develop and embed sustainability goals into business as usual



Planning



Detailed stock analysis to map property investment pathways

Optimised investment planning to align retrofit with other works

Business case development for retrofit investments, including funding bid support

Procurement support to develop your procurement strategy for best outcomes



Delivery



Technical guidance from qualified Retrofit Coordinators

Project and programme management for your retrofit activities

Project monitoring and evaluation to maximise savings and inform your future programme

Delivery of grant funded programmes to meet reporting and performance requirements

About Turner & Townsend

We are an independent professional services company specialising in programme management, project management, cost management and consulting across the real estate, infrastructure and natural resources sectors.

With 111 offices in 45 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.



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RETROFIT CREDITS

Unlocking additional investment
for the social housing sector's
retrofit activities

RETROFIT CREDITS



What is it



Funding for retrofit



Better homes for residents



Driving decarbonisation

RETROFITCREDITS is a new service that unlocks investment in social housing retrofit by verifying the emission reductions and social value of retrofit projects.

In 2021, UK businesses and organisations (or those with emissions in the UK) funded the reduction of 14.9 million tonnes of emissions by investing in projects outside their carbon footprint. That's more than the total emissions of the social housing sector. Yet none of that investment is currently directed to retrofit projects in the sector.¹

RETROFITCREDITS connects this investment in decarbonisation projects, with the social housing sector's increasing retrofit ambitions, by originating carbon credits backed by the emission reductions and social value.

¹ [Supply and Demand in the UK Voluntary Carbon Market \(Allied Offsets\)](#), 13 October 2022'

RETROFIT CREDITS



Service partners

HACT

HACT has been at the heart of housing sector innovation for over sixty years. HACT partners with organisations across the housing sector to drive value for residents and communities through insight-led products and services.

HACT has pioneered social value in the social housing sector, working with organisations as they seek to measure and understand their social impact.

ARCTICA PARTNERS

Arctica Partners was founded to design and implement a certified emission reduction project for the housing sector and expedite the pace of housing decarbonisation.

Combining housing experience with over a decade of expertise in sustainable finance and the carbon markets.

PROGRAMME MEMBERS

We are enrolling housing providers and credit buyers to participate in the scheme and the service.

We are developing a strong pipeline and would welcome the opportunity to discuss your involvement further.

We are also looking to enable the expansion of the service.

Antoine Pellet
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RETROFIT CREDITS



What makes it different?



Social Value: RETROFITCREDITS incorporates social value measures into the credit value - demonstrating that retrofit not only reduces greenhouse gas emissions in the long term but also creates social value for residents and communities.



UK Impact: RETROFITCREDITS presents a unique opportunity for businesses with UK operations to have a positive impact on the lives of residents in the communities they operate.



Innovative: RETROFITCREDITS is the only carbon crediting project for housing retrofit globally to be listed under the Verified Carbon Standard, the world's leading certification programme for emission reduction projects.



RETROFIT CREDITS



How it works

1

DECARBONISATION

The social housing provider enrolls housing stock where retrofit works could improve the thermal efficiency of the home and/or reduce the carbon intensity of the heating source

2

CALCULATE REDUCTIONS AND SOCIAL VALUE

Arctica calculates the potential emission reductions using the Verified Carbon Standard and projected funding available from RETROFITCREDITS

HACT calculates the social value generated by the retrofit works using the UK Social Value Bank

The social housing provider uses the projected funding to inform their investment case for retrofit activities

3

CREDITS & SALE

Once retrofit works are complete, Arctica originates Verified Carbon Units (RETROFITCREDITS) with Verra Registry backed by the certified emission reductions and social value.

Arctica and HACT manage the sale of the RETROFITCREDITS.

The social housing provider receives payment for the emission reductions and social value created or uses the RETROFITCREDITS to compensate their unabated emissions

20x
Each tonne of CO₂e reduced is eligible for crediting to 2042

Antoine Pellet
antoine.pellet@hact.org.uk

Who benefits?

1

PROVIDER ORGANISATIONS

Based on current projections, around £2,000 worth of credits could be generated for a single Retrofit Credit across 20 years.

With the cost of retrofit works increasing over the last months, this additional income could make a real difference.

2

RESIDENTS

With rising energy costs, the risk of fuel poverty is only increasing.

Retrofit can increase energy efficiency, meaning both warm homes and lower energy bills. According to the End Fuel Poverty Coalition, 96% of fuel poor homes are poorly insulated.

3

COMMUNITIES

Businesses want to have a demonstrable impact within communities and invest in a just green transition.

From the installation of insulation to heat pumps, increased investment in retrofit also means supporting the growth of jobs in the green economy.

4

MARKETS

HACT and Arctica will act as independent verifiers of the emission reductions and social value creation.

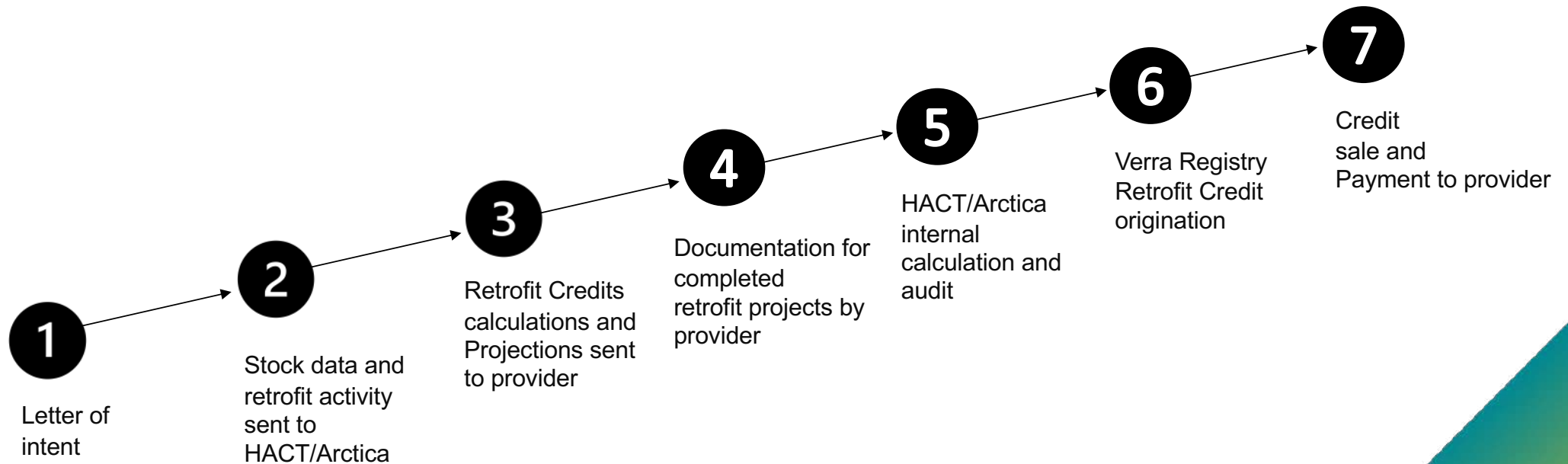
We will produce certified metrics that are robust and ready to be used in corporate disclosures and social responsibility reporting.

Programme update

Since the launch of the **RETROFITCREDITS** pilot in September 2022, HACT and Arctica Partners have engaged with:

- 157 social housing providers and over 25 suppliers in the private sector
- over 100 Letters of Intent (LOI) signed and/or issued
- contact with over 35 potential buyers for **RETROFITCREDITS**
- Communication with over 60 promoters who support what **RETROFITCREDITS** stands for and want to be able to share the project by encouraging the opportunity for providers and buyers to get involved with the programme.

Key milestones



RETROFIT CREDITS



Data from one provider for work completed in 2022

As an example, one housing association has sent us data on 70 homes they have retrofitted, resulting in c.115 tonnes of reductions in carbon emissions per annum.

We project that revenue from the sale of Retrofit Credits over the next years could result in income for the housing association of c.£250,000 over the period to 2042.

Thank you and don't
hesitate to join!

For more information please contact:

Antoine Pellet | Customer Relationship Lead

Email: antoine.pellet@hact.org.uk

RETROFIT
 **CREDITS**



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