

Andrew Slade
Director General Economy Skills and Natural Resources Group



Llywodraeth Cymru
Welsh Government

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Adrian Crompton
Auditor General for Wales
Audit Wales
24 Cathedral Road
Cardiff
CF11 9LJ

23 December 2021

Dear Adrian

I am responding on behalf of the Welsh Government to your report on the Welsh Government's Warm Homes Programme, published on Tuesday 23 November 2021.

I can confirm the operating arrangements outlined in the report are accurate and reflect current practices in place for the Nest and Arbed schemes. Your report, which we welcome, includes six key findings and five recommendations for consideration by the Welsh Government. Each is discussed briefly in Annex A. The Welsh Government accepts your recommendations.

I am copying this reply to the Chair of the Public Accounts and Public Administration Committee.

Yours sincerely

Andrew Slade
Director General
Economy Skills and Natural Resources Group

Cc Cabinet Mailbox – Government.Committee.Business@wales.gsi.gov.uk;
Chair Public Accounts Committee – SeneddPAC@Assembly.Wales
Welsh Government Corporate Governance Unit mailbox.

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Audit Wales Report on the Welsh Government's Warm Homes Programme

Key findings

Audit Wales

Given its ambitions to achieve net zero carbon emissions, the Welsh Government will need to rethink the energy efficiency measures offered. Both schemes rely heavily on installing fossil fuel heating, particularly gas boilers. New, efficient boilers may produce less carbon than older ones but are not the most environmentally effective option. However, the main alternatives cost more. Without a substantial increase in funding, fewer properties would benefit from the Programme as the cost per home would increase.

Welsh Government response

Tackling emissions from domestic energy use in Wales is an essential part in achieving our net zero target by 2050, as carbon emissions from Welsh housing account for 10% of all carbon emissions in Wales. Mains gas boilers often remain the most cost effective solution to reduce domestic fuel bills. The Welsh Government agrees that within finite budgets, choices will have to be made between the depth and breadth of support being offered. This tension is explored in our Warm Homes consultation document.

Audit Wales

The Welsh Government will need to be clearer about the core purpose of any successor scheme to Nest and who it intends to help. The scheme has shifted from its original purpose of tackling fuel poverty in the round. It has increasingly focussed on replacing broken or inefficient boilers for people on means tested benefits. The way the scheme has evolved means some funds are being prioritised to people who may not be fuel poor.

Welsh Government response

Approximately half of the beneficiary households through the Nest scheme have been in fuel poverty using the Welsh Government's measures. The Welsh Government agrees the use of means tested benefits as a proxy for lower incomes has proven not to be accurate and alternative proxies are being explored. More recently the introduction of the Nest Health Conditions Pilot has enabled more low income households, not in receipt of means tested benefits, to be supported through the Nest Scheme.

Audit Wales

In any replacement, the Welsh Government will also need to review the viability of the area-based approach used by the Arbed scheme, given under-delivery. The scheme experienced significant delays and considerably fewer fuel poor households received support than the Welsh Government wanted. While COVID-19 was a factor, the scheme was some way behind targets before the pandemic hit. The scheme aimed to target clusters of very energy inefficient homes in deprived areas. However, it is not clear how many such clusters still exist.

Welsh Government response

Previous iterations of the Arbed scheme were focused on domestic energy efficiency and housing regeneration. Arbed 3 was presented as an area based fuel poverty scheme and has been recognised by the European Regional Development Fund's post scheme evaluation in supporting those in severe and fuel poverty. The Welsh Government has acknowledged the dispersal of fuel poor homes proved problematic for an area based approach. This was due in part to overreliance on local authority local knowledge and outdated Energy Performance Certificates which are not mandated to be updated when improvement works have been undertaken to the worst performing homes. The viability of area based schemes is being explored as part of the consultation on the next iteration of the Warm Homes Programme.

Audit Wales

The Welsh Government made changes to the Arbed contract to speed up delivery, but this had limited impact. The Welsh Government de-committed £7.5 million of European Structural Funds due to Arbed being unable to spend its budget. The Welsh Government was unable to shift its funding to the Nest scheme as the provider did not have capacity to increase delivery.

Welsh Government response

Activity is constrained by the commercial supply chain rather than an inability to transfer funding between schemes. The funding was redirected to support other policy priorities.

Audit Wales

Future contracts need to be tightened to seek greater consistency on costs and incentivise better value for money. In letting both the Nest and Arbed contracts, only limited benchmarking was undertaken. There are significant differences in how much the two scheme managers charge the Welsh Government to supply and fit the same energy efficiency measures. There are also risks to value for money from the way the contracts specify what work contractors need to do to get paid. In particular, contractors can potentially claim full fixed payments for lighting or water measures when only installing a few light bulbs or aerators on taps as part of a wider package of energy efficiency measures.

Welsh Government response

As part of the procurement process to award the contracts for both Nest and Arbed, the value for money assessment on the price for measures within the specifications for the respective schemes was confined to the bids for each procurement. In both cases and as noted in the Audit Wales report, only two bids were received for each contract, thus limiting the opportunity to benchmark the prices offered by the perspective suppliers. Whilst lessons have been learned from the procurement exercises undertaken in 2017, the arrangements for delivering energy efficiency measures by the two schemes were different and could account for some of the differential pricing highlighted in the report. We will take this recommendation into account as we let any future Warm Homes contracts.

Audit Wales

Future schemes would benefit from increased scrutiny of delivery, closer monitoring of contract compliance (in particular, checking that disaster recovery plans are in place at the start of the contract rather than confirming much later on) and better management information. The Welsh Government's oversight of the Programme has been hampered by gaps in, and inaccuracy of, management information.

Under previous iterations of the programme, there had been problems with poor quality installations causing damage to people's homes. The Welsh Government learnt lessons and hired an independent company to do checks on installations as well as verifying performance data. Until recently there has been a backlog of inspections to check the quality of installations. Although the COVID-19 pandemic has contributed to the delays the backlog had built up before this. Also, some other elements of the quality assurance and audit function have not been fully delivered to date.

Welsh Government response

Some of the documents and plans required under the terms of the contract were not formally submitted to Welsh Government in accordance with the contract. The delay in inspections undertaken for quality assurance were in part as the result of the pandemic, but also the operational arrangements in place for the completion of works under the Arbed contract. These issues had been resolved towards the end of the contract.

Recommendations

Strategic fit and policy alignment

Audit Wales Recommendation 1

For future schemes, the Welsh Government should review the energy efficiency measures that are available to ensure they align with its ambitions to reduce carbon emissions and ensure the cost implications of switching to greener measures are fully budgeted for.

Welsh Government response

Accept. The balance between fuel poverty and decarbonisation will be considered as part of the work to develop the next iteration of the Warm Homes Programme. This will be informed by learning from the Optimised Retrofit Programme as well as wider market and sector intelligence.

Audit Wales Recommendation 2

The Welsh Government should clarify the core purpose of the Nest or any successor scheme and whether it is about replacing broken boilers for poorer households or providing wider support to those most at risk of being in fuel poverty.

Welsh Government response

Accept. Our plan to tackle fuel poverty published in March 2020 aligns to the principles of supporting the worst first on a fabric first basis. The next iteration of the Warm Homes Programme will also align to this principled approach and our consultation seeks stakeholder views about the purpose of the programme and the balance between fuel poverty and decarbonisation.

Audit Wales Recommendation 3

The Welsh Government should review whether the area-based delivery approach used by the Arbed scheme remains viable or needs significant amending given under delivery.

Welsh Government response

Accept. Focusing area based activity on home energy efficiency and regeneration improvements would resolve the issues Arbed encountered as a fuel poverty scheme. This is being considered as proposals are developed for the next iteration of the Warm Homes Programme.

Audit Wales Recommendation 4

The Welsh Government should ensure under future iterations of the Warm Homes programme that contracts are flexible enough to shift funding and capacity between schemes to maximise the overall delivery of the programme.

Welsh Government response

Accept. Beyond the flexibility already adopted, work is underway to inform a future procurement strategy from the next iteration of the Warm Homes Programme. We will also remain mindful of the risk of non-compliance with current public procurement regulations.

Audit Wales Recommendation 5 - Contracting arrangements

Before developing the next iteration of the Warm Homes Programme, the Welsh Government should carry out a full review of the lessons learnt from management of the current contracts and develop a clear plan for applying those lessons in the next iteration.

Based on our review, we expect those lessons to include the need to:

- Carry out appropriate benchmarking between bidders and to the current market costs of energy efficiency measures to ensure consistency in pricing and obtain value for money.
- Be clear on the expectations of Scheme Managers in relation to the industry standard specifications for the installation of energy efficiency improvement measures.
- Ensure that Scheme Managers provide their disaster recovery plans as required by the contracts.

- More closely monitor performance with more complete and accurate management information.
- Obtain more timely and comprehensive support from its independent external quality assurance arrangements

Welsh Government response

Accept. The findings set out in this report mirrors the Welsh Government's assessment of the arrangements put in place for the current iteration of the Warm Homes Programme. This report is the result of extensive collaboration between the Welsh Government and Audit Wales to learn the lessons from the current programme. The Welsh Government has commissioned external consultants to provide technical and commercial advice as the next iteration of the Warm Homes Programme is developed.