

TELFORD & WREKIN COUNCIL

CABINET - 31 JANUARY 2013

ENERGY COMPANY OBLIGATION AND GREEN DEAL – OPTIONS AND RECOMMENDATIONS

REPORT OF THE ASSISTANT DIRECTOR: DEVELOPMENT, BUSINESS & HOUSING

LEAD CABINET MEMBER - COUNCILLOR CHARLES SMITH

PART A – SUMMARY REPORT

1.0 SUMMARY OF MAIN PROPOSALS

- 1.1 The Energy Company Obligation (ECO) and Green Deal (GD) have been introduced by the Government as a means of improving the energy efficiency of homes, saving residents money, reducing fuel poverty and cutting carbon emissions. They also present opportunities to deliver the Council's vision and priorities for inward investment, business growth and improving the wellbeing of residents. ECO and GD related legislation was enacted in October 2012 and becomes operational in January 2013.
- 1.2 The GD is a financial mechanism open to all households. Retro-fit energy efficiency measures are funded by a GD Provider in the form of a loan or charge to the property, which is paid back through electricity bill payments. It works on the basis of the "Golden Rule" whereby the regular re-payments made via the energy bill must be less than or equal to the bill savings made. This means that there should be no net increase in costs to the customer and they avoid upfront payments. As the loan is paid off and electricity prices rise, there is scope for increased savings.
- 1.3 This report sets out the options available to the Council, and recommends the Council adopt a 'Partner' approach working with Carillion plc taking advantage of the Birmingham Energy Savers Framework contract in order to maximise both ECO and GD opportunities in the Borough at the same time significantly reducing procurement costs.

2.0 RECOMMENDATIONS

- 2.1 **That Cabinet approve the establishment of a partnering arrangement utilising the Birmingham Energy Savers Framework contract, to coordinate local delivery of ECO and Green Deal opportunities;**
- 2.2 **To delegate authority to the Assistant Director, Development, Business & Housing, in consultation with the Cabinet Member for Housing Regeneration & Economic Development to agree contractual arrangements with the Birmingham Energy Savers GD Delivery Partner, Carillion Energy Savers, to maximise the Authority's opportunities associated with ECO Funding and the use of Green Deal funding;**
- 2.3 **To delegate authority to the Assistant Director: Law, Democracy & Public Protection to sign or seal all documentation required to give effect to any agreement reached pursuant to 2.2.**

3.0 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	Business Winning, Business Supporting Council
	Will the proposals impact on specific groups of people?	
	Yes	The ECO and GD will contribute to the health and well-being of residents in the Borough, and specifically those in fuel poverty, priority groups and all residents seeking to reduce their carbon footprint/energy bills.
TARGET COMPLETION	ECO and GD legislation was enacted in October 2012 and will become operational in January 2013	
FINANCIAL/VALUE FOR MONEY IMPACT (Provided by Julia Copus/Dainy Runton)	Yes	<p>This report recommends that the Council enters into a Partnership arrangement with Carillion Energy Savers for the provision of ECO and GD services. Under this arrangement funding for loans to householders will be brokered by Carillion at no cost to the Authority. The upfront costs of procuring the framework contract have been funded by Birmingham City Council. Any additional legal costs incurred by TWC during the contract negotiation stage will be reimbursed by Carillion Energy Services. Ongoing contract management and delivery related duties will be undertaken by Carillion with limited input required from the Authority. TWC will be required to support and promote the scheme and any expenditure incurred will have to be met from existing budgets.</p> <p>Paragraphs 4.11 and 4.13 of this report make reference to a Marches Sustainable Housing Partnership which will report on ECO and GD options for the LEP in the New Year. By agreeing to the arrangements with Carillion the Authority may limit the ability to participate in the LEP arrangements, although the lost opportunity costs of this, if any, cannot be equated at this stage.</p>
LEGAL ISSUES (Provided by Jonathan Eatough)	Yes	<p>Provisions introducing the green deal and the energy company obligation form part of the Energy Act 2011. This Council was one of the contracting authorities that were included in an OJEU notice placed by Birmingham City Council seeking a delivery partner to deliver, for us, energy efficiency works to buildings within the Borough. The exact nature of the arrangements between the Council and the delivery partner has yet to be resolved but there will be a separate contractual arrangement directly between the Delivery Partner and the Council. The obligations on the Council are relatively light but do give effectively exclusive use of the Council's name in respect of marketing/ encouragement of take up within the Borough. This is a reputational risk but will help the Council to secure obligations from the delivery partner in respect of training/ use of local firms to undertake much of the work which will be measured by way of key performance indicators. The Council's ability to move away from the procured Project Agreement are limited but should provide sufficient flexibility given the nature of the contractual arrangements and the relatively few burdens imposed on the Council. The approval process is a 2 stage process – firstly for an outline response which, if approved would be developed for final approval. This process should take in the region of 3 – 4 months and, even at the end of the process the Council is not obliged to enter into the contract.</p>
OTHER IMPACTS, RISKS &	Yes	The opportunities and risks associated with each option are outlined in Appendix 1. It is important that the Authority establishes its approach to the GD in advance of it becoming operational in

OPPORTUNITIES		order to maximise the opportunities for residents of the Borough
IMPACT ON SPECIFIC WARDS	Yes	The GD is available to all households/wards in the borough, ECO funding will particularly benefit wards with high levels of households on low incomes

PART B) – ADDITIONAL INFORMATION

4. INFORMATION

4.1 Fuel poverty is a significant issue for Telford & Wrekin. Latest figures from 2010 show there were 11,279 households within this category, equating to 16.7% of total households in the borough.

4.2 What is the Energy Company Obligation (ECO)?

The ECO replaces existing energy efficiency schemes, namely the Carbon Emissions Reductions Target (CERT) and Community Energy Savings Programme (CESP) and the “Warm Front” scheme. ECO funding can provide up to 100% grant assistance for retro-fit energy efficient measures (e.g. efficient boilers, insulation, solid wall cladding) in low income and vulnerable households. The relative proportion of ECO funding available to individual households is evaluated during the Green Deal Assessment process (as detailed below).

4.3 There is £1.4 billion of ECO funding available each year in the UK up to 2015. The fund is split into three categories:

- The **Carbon Saving Obligation (£760m)** provides additional support for hard to treat homes that cannot fully fund energy efficiency improvements through Green Deal finance alone. This funding is appropriate for all dwellings, including 835 grade I and II Listed Buildings and a further 3,025 properties within conservation areas in the borough.
- The **Affordable Warmth Obligation (£350m)** provides support to low income and vulnerable households least able to heat their homes to an adequate standard. Eligibility will be restricted to households who are in receipt of certain benefits and tax credits.
- **Carbon Saving Community Obligation; (£190m)** is aimed at low income and rural areas. There are 16 local areas of multiple deprivation in the Borough that could qualify for up to 100% of this fund, equating to around 11,560 households. There are a further 7,450 properties in the Borough which fall within the ‘rural’ area of this category.

4.4 How will the ECO work?

ECO funding will be brokered via a Green Deal Provider following an assessment of which households qualify. Providers need to work closely with Local Authorities to identify low income households based on benefit records. In addition, the Local Authority can significantly improve take up via active promotion of the scheme and provider.

4.5 To date, the Authority has received a number of enquires from companies interested in brokering the ECO fund and working with the Council on identifying eligible properties. It is therefore important to agree a co-ordinated, procurement-compliant approach prior to the funding being available.

4.6 What is the Green Deal (GD)?

The GD is a financial mechanism open to all households. Retro-fit energy efficiency measures are funded by the GD provider, in the form of a loan, and then re-paid through electricity bill payments. It works on the basis of the “Golden Rule” whereby the regular payments made via the energy bill must be less than or equal to the bill savings made. This means there should be no net increase in costs to the customer and they avoid upfront payments. As the loan is paid off and electricity prices rise, there is scope for reduced bills. The GD is also anticipated to be opened up to non-domestic and commercial properties in the future which could bring potential benefits for organisations, including the Council.

- 4.7 Appendix 2 illustrates how the Green Deal process works. It is important to note that a loan or charge to the property will not be provided unless the projected energy savings outweigh the cost of any improvements.
- 4.8 Householders can place a charge on the property (via electricity bills) for up to 25 years to fund the measures. This differs from conventional borrowing because the householder only repays the charges whilst they are the energy bill payer. This means that the charges are transferred (or conveyed) between owners or tenants at times of occupancy changes.
- 4.9 Nationally the Green Deal is intended to improve the energy efficiency for 26 million homes and up to 2.8 million commercial properties by the year 2030.
- 4.10 The 'Golden Rule' principle limits the amount of Green Deal finance that can be attached to the energy bill and focuses upon packages of measures that will create instant savings. Where a Green Deal plan does not meet the 'Golden Rule', Green Deal providers can receive part-payment via other means, including upfront payment by the customer or from the ECO fund.

4.11 **What are the options for Telford & Wrekin Council?**

The Government has identified a number of roles that a Local Authority can choose to take to maximise local benefits from ECO and GD. These are set out in Appendix 1. In summary the options are:

1. **Do Nothing:** business as usual with very limited promotion
2. **Promoter:** promoting the GD and associated funding to residents without signposting to any one Provider
3. **Partner:** working with a GD Delivery Partner who would broker ECO funding on behalf of the residents of the borough. The Council would work actively to identify households which are eligible for funding and to encourage take up.
4. **Provider:** entering into finance arrangements with householders to deliver the GD

The Marches Sustainable Housing Partnership, which is a sub group of the LEP, is reviewing the options open to LEP Authorities. The report from the Marches LEP indicates that options they are considering are:

- a) Carillion / Birmingham Energy Savers offer
- b) Work with Walsall's Housing Group Delivery Partner Option (a significant time to completion)
- c) Community Interest Company (investment needed to set up and agreements with two other LA's)
- d) Producer Model (the Provider model referred to above)

4.12 **Conclusions**

The "do nothing" and "Promoter" roles require minimal input from the Council but may mean opportunities to maximise benefits to local residents and businesses are missed.

The "Partner" approach is more pro-active and would ensure ECO funding opportunities are maximised. The final option is for the Authority to become a certified GD "Provider" in its own right. Given the time and costs associated with this approach, it is typically only being considered by Authorities that have their own housing stock.

- 4.13 The four options are being explored by the Marches Sustainable Housing Partnership, although the Community Interest Company model and the Walsall Housing Group options would not be available by the time the ECO and GD become operational. Should a future viable proposal be presented to the Authority a further report will be brought to Cabinet.

- 4.14 It is considered that the Green Deal “Partner” approach provides the greatest opportunity to the Borough to maximise uptake of funding and deliver economic and wellbeing related outcomes.
- 4.15 Along with 33 other local authorities and 7 social landlords (including Wrekin Housing Trust), the Authority is a signatory of the Birmingham Energy Savers (BES) Framework of which Carillion Energy Services is the appointed Green Deal Provider. Telford & Wrekin Council already has a good working relationship with Carillion, having administered the Authority’s “Warm Front” scheme for two years, and assisting some 195 households to the value of circa £200,000. This scheme will be replaced by ECO. It is recommended that the Council use the Framework to establish a partnership with Carillion.
- 4.16 **Local Operation of the BES Framework**
Under the BES Framework Carillion would undertake:
- marketing, engaging customers and selling energy efficiency measures
 - surveying, assessing, refurbishing and maintaining properties
 - managing supply chain growth and innovation
 - delivering local employment and training opportunities,
 - securing finance and managing loans,
 - establishing public/ private partnerships and governance arrangements
- 4.17 As a partner, the Council will support Carillion in delivering the ECO and GD locally by:
- coordinating all energy efficiency activity within the borough
 - utilising the network of partners and employees to engender trust in the scheme.
 - providing a client function in accordance with agreed contractual arrangements
- 4.18 Each partner would devise a visible brand, such as “Telford Energy Savers” for example. This would be locally promoted by the Council and its partners. The scheme therefore benefits from the support and promotion by the Council as a trusted local service provider. Quality assurance, complaint resolutions and any liabilities associated with the actual Green Deals delivered by Carillion would be between Carillion and individual households.
- 4.19 The BES framework specifies that Carillion utilise existing networks of small businesses and the local supply chain, rather than bringing in their own direct labour. In order to maximise benefits to the local economy, local KPIs would be established, including:
- the number of GD assessments completed
 - value of ECO monies secured
 - number of local jobs and Apprenticeships created
 - number of people from priority groups assisted to access placements, training and job opportunities
 - number of small and medium sized enterprises receiving two or more days of assistance (as defined by European data)
 - value of works delivered by companies that pay Telford business rates
 - number of training weeks per £m invested and spent on the project in the area
 - customer satisfaction
 - regular accurate, timely reporting in accordance with the terms of the Project Agreement
- 4.20 Each KPI would have an agreed performance target. For example, for each £500k secured through a GD, a local apprentice would be supported.
- 4.21 URSUS Consulting has been appointed to work with the signatories to the BES framework to ensure that they maximise local benefits. This work is resourced from EU funding and provides an opportunity to utilise ECO either directly or as part of a GD to assist regeneration schemes in the Borough.

5. **PREVIOUS MINUTES**

None

6. **BACKGROUND PAPERS**

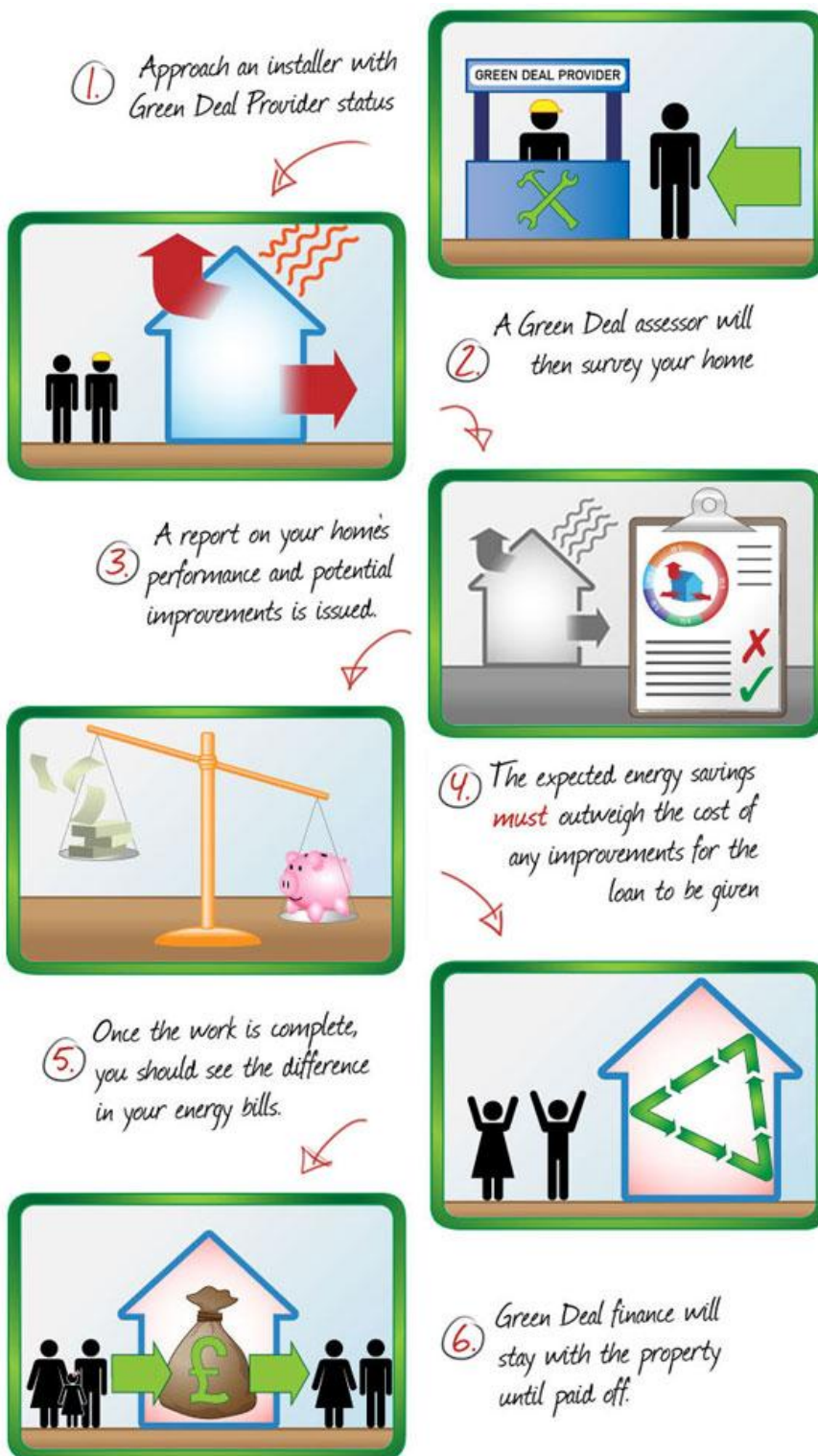
None

Report prepared by Iain Wheeler, Housing Delivery Officer, 01952 384222

Appendix 1: The Energy Company Obligation and the Green Deal: Options Appraisal for Telford & Wrekin Council

Option	Benefits/Opportunities	Risks/Disadvantages
Do Nothing	<ul style="list-style-type: none"> • Business as usual with no impact on officer time 	<ul style="list-style-type: none"> • Missed opportunities to access ECO funding for the borough and take up of Green Deal
Green Deal 'Promoter': T&W promoting the GD and associated funding through provision of information	<ul style="list-style-type: none"> • Residents already receive information from the Council in relation to existing schemes such as Warm Front and so impact on officer time would be negligible 	<ul style="list-style-type: none"> • Approach restricted to providing general information only without signposting to any one provider. The approach will therefore lack co-ordination, with a higher likelihood of reduced uptake and missed ECO funding opportunities
Green Deal 'Partner': T&W work with the Birmingham Energy Savers (BES) GD Delivery Partner, Carillion Energy Services, who would broker ECO funding on behalf of the Council. T&W would be given a visible brand as part of the schemes promotion.	<ul style="list-style-type: none"> • Co-ordinated approach, where residents can be clearly signposted to Carillion Energy Services and ECO funding opportunities maximised • T&W branding will help uptake • Delivery of economic growth and wellbeing priorities for the borough: opportunities for existing trades people to diversify, safeguarding of new jobs, potential development of new businesses and apprenticeships, reduced fuel poverty through affordable warmth and positive contribution to regeneration schemes • Costs are limited to T&W Officer time which would be met from within existing resources. Procurement related costs would be met by BES 	<ul style="list-style-type: none"> • Potential reputational risk to the Council associated with branding, although mitigated through effective contract management, including the establishment of key performance indicators. There would also be no financial liabilities to the Authority in relation to the actual Green Deal brokered by Carillion
Green Deal 'Provider': T&W becomes a certified Green Deal Provider in its own right, entering into finance arrangements with households	<ul style="list-style-type: none"> • Uptake is likely to be higher as a result of trust in the Council's reputation • ECO funding opportunities would be maximised • The Council would have greater control of delivery outputs for the borough, ensuring achievement of economic growth and wellbeing priorities (detailed above) 	<ul style="list-style-type: none"> • Potential reputational risk and financial liabilities associated with Green Deals made by the Authority • Operational risks e.g. warranties • Finance to support the provision of GD's • Competition with national companies in a commercial environment • Costs associated with being a GD provider – e.g. accreditation, administration, credit licensing, provision of trained staff (call operators, sales agents, GD assessors), marketing and supply chain and sub-contractor management

Appendix 2: The Green Deal process explained



If you move house, the new owners will take on the payments.