

Meeting of the Cabinet – 20th March, 2013

Green Deal / Energy Company Obligation (ECO) update and Home Energy Conservation Act (HECA)

Purpose of Report

1. The purpose of this report is to brief Cabinet on the Green Deal and ECO, and the joint Black Country work that has been undertaken and proposes that further work is undertaken at a Dudley level. The report also requests sign off of the Council's HECA return.

Background

2. The Green Deal and Energy Company Obligation (ECO)

The Green Deal is the Government's flagship retrofit energy efficiency scheme. It is a government led initiative that allows households, landlords and businesses to invest in energy efficiency measures without needing to meet the upfront capital costs of the measures and with repayments of the investment funded through the resultant savings in energy costs.

The Department of Energy and Climate Change (DECC) estimates that Green Deal has the potential to deliver upwards of £14bn of investment in energy efficiency and renewable energy at a household level over the next 10 years across the UK.

The key principles of Green Deal are:

- The Green Deal 'Golden Rule' specifies that the loan for the energy efficiency measures installed must be payable through savings from the energy bill (i.e. loan cost should be lower or equivalent to the predicted savings due to reductions in energy use.)
- The loan can be provided for a period of up to 25 years.
- The loan is tied to the home and not the person. The loan is passed onto the subsequent home occupants.
- The loan repayments will be collected by energy companies via the electricity bill. Home occupants remain free to switch suppliers.
- There are a list of Green Deal eligible measures.
- It is accepted that whilst Green Deal has a commercial focus local authorities will be critical to it be delivered at scale.

3. Energy Company Obligation

It is intended that the Green Deal will be supported by an energy company obligation (ECO) which has replaced the existing energy supplier obligations – Carbon Emissions Reduction Target (CERT) and Community Energy Savings Programme (CESP). The obligation is placed upon suppliers in the form of carbon

reduction targets or as fuel bill savings. The Government have estimated the financial costs of meeting these targets at £1.3bn per annum.

ECO provides support in three areas:

Home Heating Cost Reduction Obligation (HHCRO) (or Affordable Warmth ECO) approximately £350M p.a. targeted at those in fuel poverty living in private housing, owned or rented. It aims to reduce householders' fuel bills and is expected to largely deliver loft and cavity wall insulation but any energy efficiency measure will be eligible for support if it reduces the notional cost of heating the property.

Carbon Savings Community Obligation (CSCO) approximately £190M p.a. This is designed to target insulation measures in low-income communities defined using the bottom 15% of Lower Super Output Areas. It is targeted at both private and public sector housing.

Carbon Emissions Reduction Obligation (CERO) (or Carbon Savings ECO) approximately £780M p.a. This obligation is based on targets for hard to treat homes, mainly those with solid walls and is expected to be mixed with Green Deal finance in order that these measures can achieve the Golden Rule. It is anticipated that public sector housing will also be eligible for this obligation although the exact details are still to be confirmed.

Energy Companies will have the following options to choose from in delivering their ECO obligation.

- Self delivery (through their own contractors)
- Partnership Delivery (through contracts with partners such as local authorities)
- ECO brokerage (a market based trading mechanism to support an open and competitive market for the delivery of ECO).

4. **The role of local authorities -**

Three different roles have been identified for local authorities dependent on levels of control, local authority finance, resource and the risks they want to take.

Promoter -

A light touch approach would involve the local authority putting resources into marketing activities around Green Deal to make local residents aware of the benefits of Green Deal without promoting any specific delivery organisation. The level of control over any Green Deal programme in the local area, impacts on the local economy, carbon savings would be minimal to non-existent. It would be a low cost, low risk approach with limited resource requirements.

Producer -

A moderate touch approach where the local authority would put resources into marketing and generating green deal leads in their local area. A managing agent could be used to run the programme (marketing, co-ordination, referral routes, leads). These leads are then passed onto a procured panel of Green Deal providers. The panel of providers operate under the local authority's branding. Programme running costs could be covered by potential revenue streams such as referral fees from providers.

This approach provides a higher level of control for the local authority around impacts on the local economy, and the targeting of households. It also, however, carries higher risks for example a low uptake rate may not cover any programme running costs and there are reputational risks for a local authority if installations or after care is of a poor quality.

Partner -

An approach with a high level of control which would involve the local authority procuring a Green Deal provider to run a Green Deal programme under a set of local delivery requirements. These key performance requirements would be stipulated as part of any procurement process. There would also be a re-investment of revenues to cover running costs. This approach would bring the highest levels of control including delivery of local outcomes, and job creation, but would require capital funding requirements and would also carry higher risks – including both uptake and reputational risks.

Birmingham Energy Savers (BES) -

An option available in the West Midlands as Birmingham City Council have developed a model based on the partner approach and have chosen a delivery partner following an OJEU compliant procurement process. There is an option for Dudley to join BES - as we were named within their OJEU notice.

5. How will it work in practice?

It is anticipated that there are three ways in which properties can be refurbished using Green Deal finance and ECO subsidy.

Green Deal finance -

Measures or packages of measures that are cost effective and comply with the golden rule will be offered Green Deal finance. The householder has the option to take this finance or finance using alternative sources (i.e. own finances)

A combination of Green Deal finance and ECO subsidy -

More expensive measures such as solid wall insulation will require an element of subsidy to meet the golden rule.

ECO subsidy -

Measures providing affordable warmth to the vulnerable will be eligible for ECO subsidy. It is also intended that public sector housing will seek resources from ECO to provide additional funding for energy saving measures in the council owned stock. This will build on the additional resources that were secured in recent years under the previous schemes of CERT and CESP

6. Black Country Green Deal and ECO Options Appraisal -

The four Black Country authorities commissioned the Energy Savings Trust / Verco in May 2012 to undertake an options appraisal and business case for the implementation of a housing retrofit programme aligned to the Government's Green Deal across the Black Country.

The three key pieces of work were:

- To develop a comprehensive housing stock evidence base which was used to model the business case options for Green Deal across the Black Country.

- To conduct a financial options appraisal and develop an action plan and financial business case to maximise Green Deal delivery in the Black Country.
- To assess the relevant economic benefits of the Green Deal.

The project was overseen by a working group consisting of representatives from all four Black Country authorities who reported to a wider steering group of Black Country stakeholders consisting of representatives from various teams within all four authorities. There have also been updates to the ABCA Chief Executives' group.

The Options Appraisal identified that:

- There was significant Green Deal investment potential across the Black Country valued at £1.4 billion together with ECO potential of approximately £1 billion.
- The highest potential for energy efficiency measures was for loft insulation and loft top-up followed by condensing boilers and cavity wall insulation.
- The modelling of the different delivery models revealed a range of differing benefits versus risks. For example whilst the 'producer' approach offered the most benefits in terms of numbers of households upgraded with energy efficiency measures, maximising household energy bill savings, and retaining and creating jobs this approach was very sensitive to variances in consumer uptake rates.
- The partner model was also very sensitive to consumer uptake rates and would involve upfront procurement costs

The recommendation for the Black Country from the options appraisal was for a hybrid approach involving the Birmingham Energy Savers partnership with a Black Country 'producer' type entity. This entity would market the scheme and undertake initial home visits passing on leads to Birmingham Energy Savers for a full Green Deal assessment.

This piece of work is now completed at a Black Country level and each of the Black Country authorities are considering their approach. It is a rapidly changing environment and other opportunities have presented themselves during the final stages of the options appraisal. It is proposed to further consider our approach and the various options for delivering Green Deal/ECO in Dudley with an intention to bring a report to a future Cabinet on a proposed option(s).

7. Next Steps

In-house Options Appraisal

It is proposed to further consider our approach and the various options for delivering Green Deal/ECO in Dudley and to finalise the Borough's approach to Green Deal/ECO. A further report will be presented to Cabinet on the completion of this work.

Energy Company Obligations (ECO) - The options appraisal explored access to ECO funding in combination with the Green Deal with ECO supporting packages that otherwise would not meet the Golden Rule. It was not investigated as a standalone option.

There are currently potential opportunities to access ECO as a standalone option as energy suppliers are currently seeking partnerships for the delivery of ECO. One of the drivers for energy suppliers to seek partnerships with local authorities is that these obligations must be achieved by March 2015. A number of local authorities are considering partnerships with and there is a risk that ECO funding could be spent elsewhere if we don't form a partnership. The technical analysis identified that there was a potential of approx £300M ECO available for Dudley and this ECO potential has been mapped at a LSOA level. This puts us in a good position to negotiate with potential energy suppliers.

It is important to consider the advantages and disadvantages of a partnership for delivery of ECO before entering into any formal agreements as this could lead to a number of issues when developing a longer term Green Deal and ECO whole house retrofit programme but the benefits of investigating the delivery of ECO in the short term include: limited resource requirements; low cost, low risk; a potential for short term gain and some level of control over the delivery of ECO.

It is proposed to open discussions with Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress ECO schemes – in particular the Affordable Warmth ECO which is targeted as those in fuel poverty living in private housing, owned or rented.

8. Home Energy Conservation Act (HECA)

The Home Energy Conservation Act is a statutory duty which contains responsibilities for local authorities with housing responsibilities on monitoring improvements and improving energy efficiency.

The Department of Energy and Climate Change (DECC) have issued new guidance to local authorities setting out new requirements to report on the energy conservation measures of residential accommodation in its area.

The guidance specifically requires that local authorities publish a publically available report on their plans to achieve improved energy efficiency by 31 March 2013 and to report progress in implementing their proposed measures every two years starting in March 2015 up to and including 31 March 2027.

It also asks local authorities to consider setting out a timeframe for the delivery and the role key local partners such as social housing providers and community organisations can play in supporting their plans.

The borough's HECA has been compiled in consultation with officers from across the Council.

It sets out Dudley's ambitions and plans for home energy conservation. These plans are being driven by both a corporate and health agenda including fuel poverty and excess winter deaths. Key measures within the HECA include: using the data obtained through the Green Deal options appraisal to identify areas and households for targeting especially for affordable warmth ECO; progressing the work we have been undertaking to date on Green Deal / ECO options and determining our approach. We are also proposing to develop an Affordable Warmth Strategy during 2013/14.

Finance

9. Access by the householder to low cost long term finance is crucial to the success of the Green Deal and whilst private sector finance from banks is expected to provide the bulk of the required finance it is clear that some initial form of government finance in a quasi –equity role taking a first loss position in any programme will be required. This is expected to come from two sources: the Green Investment Bank and from local authorities. The ECO element will be funded through the energy suppliers.

Any financial implications for the local authority will depend on the role selected. The in-house options appraisal will cover the financial implications in more detail.

The Black Country options appraisal was funded by the West Midlands Housing Residual Fund with a contribution of £5000 from each of the Black Country authorities and the Homes and Communities Agency.

Law

10. The Energy Act 2011 made provision for the arrangement and financing of energy efficiency improvements to be made to properties by owners and occupiers.

The Home Conservation Act 1995 sets out requirements for English Energy Conservation Authorities ECAs to report on the energy conservation measures of residential accommodation in its area.

Equality Impact

11. An Equality Impact Assessment will be undertaken prior to the final recommendation. ECO funding will enable energy efficiency measures to be installed in people's homes improving the quality of life of protected groups.

Recommendation

12. It is recommended that:-

- The contents of the report are noted.
- To further develop the various options for delivering Green Deal/ECO in Dudley and to finalise the Borough's approach to Green Deal/ ECO with a future report to Cabinet for decision.
- That the Council authorises the Cabinet Member for Housing, Libraries and Adult Learning, the Director of Adult, Community and Housing Services and the Director of Corporate Resources to bid for and enter into ECO funding arrangement.
- The HECA is approved and is made publically available on the Council's internet.



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Appendix 1

Dudley HECA Report

ACTION	HOME ENERGY CONSERVATION ACT (HECA) REPORT	TIMING
I) LOCAL ENERGY EFFICIENCY AMBITIONS AND PRIORITIES		
	Our current performance on emissions and fuel poverty based on 2010 levels is: 41% of emissions in Dudley originate from the domestic sector and 20.9% of households in the Borough are fuel poor households. This is above the national average.	2010
	Our Carbon Management Plan, developed as part of the 'Dudley Green Project' is an overarching initiative which demonstrates the council's commitment to delivering measurable environmental sustainability improvements and tackling climate change	2010 – 2015
	We have committed to the development a Strategic Energy Action Plan for the Borough focussing on emissions drivers over which the local authority has control or influence.	2013 – 2020
	Facing up to climate change and promoting sustainable development are key principles which underpin the vision within the Black Country Joint Core Strategy. The strategy identifies a number of environmental policies including meeting Code for Sustainable Homes (CSH) Level 3 for residential development and the development of renewable energy sources on residential developments of 10 units or more.	To 2026
	Making our neighbourhoods healthy - by planning sustainable, healthy and safe environments and supporting the development of health-enhancing assets in local communities is a priority within our Health and Well-being Strategy. This is supported by our Joint Strategic Needs Assessment, highlighting our position against England on the indicators relating to fuel poverty and excess winter deaths. It is proposed that targets against these indicators will be set as part our Affordable Warmth/Fuel Poverty Strategy	2013- Ongoing
	We are currently undertaking analysis to ascertain the future potential impact of fuel poverty and energy efficiency programmes to enable the setting of realistic reductions in C02 emissions and fuel poverty. The setting of any future fuel poverty targets will clearly be dependent on the final outcome of the Hills Review covering the definition of fuel poverty	2013- Ongoing

ii) MEASURES WE ARE TAKING TO RESULT IN SIGNIFICANT ENERGY EFFICIENCY IMPROVEMENTS OF OUR RESIDENTIAL ACCOMMODATION

<p>Green Deal and ECO</p>	<p>We have been undertaking preparatory work on the Green Deal working with the three other Black Country authorities to complete:</p> <ul style="list-style-type: none"> a. A financial and stock options appraisal at a Black Country level b. Business case options developed and recommendations under consideration c. Identification of eligible areas, household and property type for targeting of ECO 	<p>2012/13</p>
<p>Feed in Tariffs Scheme</p>	<p>We have installed 688 PV installations as of September 2012. We will monitor the energy savings from these installations before progressing with further installations to the social stock.</p> <p>We will encourage households in the domestic sector through our Home Improvement Service to install renewable technologies ensuring that fuel poor customers are able to access an integrated programme that brings together the ECO, grants (or assisted Green Deal finance), FIT and RHI etc</p>	<p>2012 - Ongoing</p> <p>2013- Ongoing</p>
<p>Renewable Heat Premium Payment</p>	<p>We have installed 0 installations as part of the short-term Renewable Heat Premium Payment Scheme. Subject to the launch of the RHI in 2013, we will encourage households in the domestic sector to install renewable technologies ensuring that fuel poor customers are able to access an integrated programme that brings together the ECO, grants (or assisted Green Deal finance), FIT and RHI etc</p>	<p>2013 - Ongoing</p>
<p>Zero Carbon Homes</p>	<p>There are no plans at present regarding all new built homes being zero carbon by 2016. The Borough's Joint Core Strategy requires residential development to meet CSH Level 3. Further improvements to the energy efficiency of residential dwellings will be driven through Building Regulations which are set nationally.</p>	
<p>EPCs</p>	<p>We are establishing data on the energy rating of our residential accommodation across all tenures. We will explore the use of this information to target energy inefficient properties for improvement.</p>	<p>2013</p>
<p>Minimum Standards in Private Rental Sector</p>	<p>We are undertaking data analysis to identify the most economically vulnerable living in hard to treat and inefficient housing in the private rented sector. This information will then form part of an Affordable Warmth/Fuel Poverty Strategy planned for 2013/4 to target action to improve energy efficiency and reduce fuel poverty levels in this sector.</p>	<p>2013/14</p>
<p>Smart</p>	<p>In line with government plans for a mass roll out of Smart Meters, it is estimated that 133,000 homes in the</p>	<p>2019</p>

Meters	Borough will have Smart Meters by 2019	
iii) MEASURE WE PROPOSE TO COST EFFECTIVELY DELIVER ENERGY EFFICIENCY IMPROVEMENTS IN RESIDENTIAL ACCOMMODATION BY USING AREA BASED/STREET BY STREET ROLL OUT		
	We are proposing to:	
	a) finalise our approach towards delivering Green Deal in Dudley and will be presenting a further report to the Council's cabinet on the completion of this work.	2013-2015
	b) identify target areas and priority roll out using stock data analysis from the Black Country Options Appraisal	2013-2021
	c) deliver energy efficiency improvement to all tenures once delivery programmes and investment requirements have been identified.	2013-2021
iv) TIME FRAME FOR DELIVERY AND NATIONAL AND LOCAL PARTNERS		
	We will continue to explore partnership working as part of our approach towards the delivery of Green Deal in Dudley.	By 2015
	We will also explore the option of working directly with energy suppliers for the delivery of ECO.	

Signed off by.....

Position: Chief Executive – Dudley Metropolitan Borough Council