

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – COMMUNITY
3 SEPTEMBER 2013

EXECUTIVE
17 SEPTEMBER 2013

HOME ENERGY CONSERVATION REPORT & ENERGY COMPANY OBLIGATION FUNDING

1. PURPOSE OF REPORT

- 1.1 To update Members on the Council's duties relating to home energy conservation and work being conducted on procuring an Energy Company Obligation (ECO) provider.

2. BACKGROUND

- 2.1 The Government's Carbon Plan sets out the strategy for meeting the UK carbon targets and includes the following:
- To reduce greenhouse gas CO₂ emissions by 29% by 2017, 35% by 2022, and 50% by 2027
 - To insulate all cavities and lofts, where practical, by 2020
 - To insulate between 1 and 3.7million solid walled properties and the installation of between 1.9 - 7.2million other energy efficiency measures by 2030
 - Carbon emissions from UK buildings to be "close to zero" by 2050
- 2.2 In order to monitor progress against these targets the Government required all local authorities in England to produce an Home Energy Conservation report by 1st March 2013, setting out the energy conservation measures that each authority considers practicable, cost-effective and likely to result in significant improvement in the energy efficiency of residential accommodation in its area. In so doing the Council had regard to:
- Measures that take advantage of the financial assistance offered from Government initiatives, such as the Green Deal and Energy Company Obligation
 - Measures which an authority has developed to implement energy efficiency improvements

3. HECA REPORT

- 3.1 Effectively the first report, which was submitted to the Department of Climate Change (DECC) by 1st March 2013, is a position statement identifying the potential for improvement in each local authority and it is to be followed by progress reports at 2 yearly intervals up to and including 31 March 2027.

3.2 In order to establish a robust baseline, and identify potential for energy efficiency measures to residential accommodation DECC published data for each local authority on:

- Energy consumption (gas, electricity, other fuels, road transport)
- CO2 emissions
- Cavity wall and loft insulation installed under the Carbon Emissions Reduction Target
- Numbers of solar PV installations

That data, together with local data from sources such as the Council's Private Sector House Condition Surveys, returns for locally run energy efficiency schemes such as Cosy Devon and PLEA, in conjunction with the Energy Performance Certificate data held for 18 000 private properties in the City, enabled the first report to be written, (see Appendix 1).

4. LEVERING IN ENERGY COMPANY OBLIGATION FUNDING

4.1 The targets contained in the Home Energy Conservation Report can only be achieved with engagement with the Green Deal and Energy Company Obligation (ECO).

Government launched its joint Green Deal/ECO initiative in January 2013 as the single “policy package” for energy efficiency that will complete the cost effective “easy wins” in the buildings sector by 2020. The Government has acknowledged that local authority involvement is key to the success of these initiatives.

The Green Deal - is an innovative finance mechanism enabling householders to pay for energy-efficiency improvements to their homes through savings made on their energy bills. The loans, administered through the Green Deal Finance Company, are available over a period of up to 25 years, with the maximum value of the loan being determined by the savings expected to be made on the energy bill as a result of the energy efficiency measures installed. For example, if insulation measures were estimated to save a householder £50 per annum on their bill the maximum loan repayment, with interest, would be calculated on an annual repayment of £50 for however long it takes to pay for the measure to be installed. The loan is repaid through the electricity meter, with the debt being passed on to the next owner if the property is sold during the period of the loan.

ECO - is an obligation placed upon the seven largest energy companies requiring them to fund energy efficiency measures and is funded through a subsidy charged on all energy bills. The level of this subsidy is currently in the region of £55 per annum on every dual fuel customer, representing approximately 4% of the average bill. The Obligation is split into three separate Obligations, each targeted at different sectors of the population:

1. Carbon Emission Reduction Obligation, worth at least £760 million per annum, to provide ‘top ups’ to Green Deal loans
2. Carbon Saving Communities Obligation, worth at least £190 million per annum (15% of which has to be spend in rural communities)
3. Home Heat Cost Reduction Obligation, worth at least £350 million per annum

The Carbon Emissions Reduction Obligation, which accounts for around 70% of the overall Obligation, must be used to top up Green Deal loans where the maximum available loan would be insufficient to fund the full cost of the energy efficiency measures being installed. This would normally be the case in respect of solid wall insulation where it is estimated that a Green Deal loan would only be available to cover between 40% and 60% of the cost of work.

The Carbon Saving Communities Obligation is to fully fund some energy efficiency measures (only partially funding the more expensive measures) to houses in 'Carbon Saving Communities' which are the Lower Super Output Areas (LSOA) throughout England which are in the top 15% deprived areas in the Country. Exeter has 6 LSOAs in this category.

The Home Cost Reduction Obligation is to provide free insulation and replacement boilers to any household on qualifying benefits.

- 4.2 In November 2012 The Devon Chief Executive's group commissioned the Energy Savings Trust to undertake an "options review" to determine the most appropriate response to Green Deal/ECO for the county of Devon through a countywide partnership of Local Authorities. This process started with an assumption that Local authorities would engage with Green Deal/ECO in one of three roles identified by Government – Provider, Partner or Advocate. However, as the partnership's learning advanced, it was clear that there was a spectrum of potential engagement possibilities. These were distilled into the following options for detailed consideration:
1. Local authority as promoter – leaving delivery of the Green Deal to the market
 2. Local authority as producer - provides marketing support, work in partnership with commercial Green Deal Provider(s)
 3. Local authority procures a GD delivery partner - coordinates finance and delivery with a private sector partner to residents and businesses
 4. Local authority as a provider - takes on the role of Green Deal Provider (effectively taking on the role of the Green Deal Finance Company) and works with local organisations, business and community to deliver Green Deal
 5. Local authority selects a partner for ECO delivery - provides marketing support and coordinates delivery in partnership with an energy company
- 4.3 At the end of March 2013, the review concluded that the Green Deal had not taken off as the Government had hoped, principally for the following reasons:
- the interest rate charged on the loan being paid back on the meter has been set at around 9% , above high street interest rates
 - homeowner's concerns that a debt attached to the meter would make their properties unattractive to potential purchasers

- savings on energy bills are only 'guaranteed' for the first year – effectively bills will continue to rise in line with energy prices
- private sector landlords are unwilling to engage as they become responsible for the debt during void periods, compounded by the fact that subsequent tenants will be liable to take on the debt through their bills
- energy companies have been slow to develop their ECO offers

It was clear that the Green Deal, and as a consequence the Carbon Reduction Emissions Obligation, are beyond the influence of local authorities and that effort should be put into procuring an ECO delivery partner to maximise the spend on the other 2 stands of ECO in the Devon and Torbay areas (by that time Plymouth had made alternative arrangements).

By early July 2013 a procurement specification had been developed and agreed by the remaining 10 Local authority partners. The key features of this specification are as follows:

- **Procurement Route** – unlike the majority of other local authorities which have undergone ECO procurement for similar schemes the Devon authorities have avoided the need to undergo a full tendering exercise using the Official Journal of the European Union rules (OJEU). Devon are entering a competitive process resulting in a Service level agreement / Memorandum of Understanding with legal conditions around data, logo/branding, KPIs, quality and customer service. This procurement has been deemed to be a nil value "contract". No funding will be provided to the successful applicant. This procurement route has not only, potentially, saved £100,000's but is also quicker and more attractive to potential partners. Crucially, the tender specification can also build upon the 'localism agenda' requiring such things as local job creation, training, capacity building and development of local supply chains, which could have not have been possible by going through an OJEU tender.
- **Exclusivity** – one provider is being sought
- **Provider Type** – selected from the Big 7 power companies, who have the ECO, and main contractors with access to ECO funding. The value of the "contract" is expected to exceed £18m annually as this is the pro rata share of the expected national expenditure by obligated power companies for Devon and Torbay
- **Service Required** – ECO measures plus an option for provision of Green Deal
- **Management Model** – fully managed by the provider
- **Scope** – Private Sector Housing plus. There is an opportunity to include housing association and public sector housing stock but many of these organisations are already negotiating their own deals

An Invitation to Tender for procuring an Energy Company Obligation Delivery Partner for Devon and Torbay was advertised on the Devon Procurement Portal on the 12th August 2013. The procurement process is being undertaken by Devon County Council on behalf of the partnership. The aim is to have an ECO Delivery Partner in place by 21st October in order to re-launch a Cosy Devon Scheme (which funded

15,000 insulation measures through previous funding arrangements) shortly afterwards.

5. RESOURCE AND FINANCIAL IMPLICATIONS

(1) a basic energy efficiency scheme can be run at no cost to the Council, other than staff input, with all funding for energy efficiency measures being secured through the ECO or Green Deal provider.

6. RECOMMENDED

That Executive and Scrutiny Committee – Community:

- 1) Note the contents of the Home Energy Conservation Report
- 2) Agree to the procurement route contained in 4.2.5.

ASSISTANT DIRECTOR ENVIRONMENT

ENVIRONMENT DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling this report:-