

<b>Subject:</b>	<b>Home Energy Efficiency Investment – Green Deal / Energy Company Obligation</b>		
<b>Date of Meeting:</b>	<b>5 December 2013</b>		
<b>Report of:</b>	<b>Executive Director Environment, Development &amp; Housing</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Martin Reid</b>	<b>Tel: 29-3321</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 Policy & Resources Committee (24 January 2013) noted the opportunities presented by Green Deal & Energy Company Obligation (ECO) to meet Corporate objectives and delegated authority to officers to sign a Memorandum of Understanding with West Sussex County Council (WSSC) to support the development of a Sussex Energy Saving Partnership.
- 1.2 WSSC have funded the procurement and mobilisation phase of a programme to secure a major private sector delivery partner contractually committed to bring the benefits of its scale, expertise and buying power to invest in the necessary local infrastructure and provide the necessary warranties and other safeguards, whilst delivering programmes of work through local contractors. Council officer time was committed to support WSSC in their procurement of a delivery partner. The successful bidder, Carillion Energy, was announced by WSSC, the contracting party, on 3<sup>rd</sup> October 2013.
- 1.3 WSSC propose to establish a Special Purpose Vehicle (SPV) for the purpose of receiving, distributing and managing finance invested by local authorities or otherwise received for the purpose of funding energy efficiency measures. Either 'Affiliate' or 'Investor' Membership options are available depending on level to which local authorities are prepared to participate in the programme. WSSC's current contract with the Delivery Partner, setting out rights, obligations and liabilities, allows them to call for a novation of the agreement from the Council (WSSC) to the new Company.
- 1.4 As a member of the Sussex Energy Saving Partnership the Council would promote the scheme to increase uptake of energy efficiency measures in the City, this may include:
  - Advertising the availability of the scheme to residents in the city through council channels such as the website and council publications;
  - Where possible, and within data protection rules, support the targeted promotion to residents who may be eligible for ECO funded measures i.e. mail out to recipients of Housing and/or Council Tax benefit;
  - Use our existing relationships with private landlords in the city to promote the scheme and its benefits to both landlords and their tenants;

- Provide data on the city's housing stock to inform a programme of potential works for the delivery partner;
- Review both the opportunities within both the city's own housing stock and corporate assets to identify potential energy efficiency improvements and renewable energy schemes that may be delivered through the SESP programme.

The extent of the Council's involvement in promotion and supporting the SESP scheme will be determined by available resources, including officer time. It is acknowledged that this will vary over time and will vary between the local authority partners in the scheme. An annual SESP business planning process including the delivery partner and member authorities will be carried out to plan a programme of work for the coming year.

- 1.5 This report seeks delegated authority for Executive Director of Environment Development & Housing, in consultation with the Executive Director of Finance & Resources, to enter into Affiliate membership of the SESP SPV. No direct investment by the Council in financing the arrangements is proposed at this time. In the first instance it is anticipated that the Delivery Partner will support households and businesses in accessing ECO funding and loan funding through the Green Deal Finance Company. However, where beneficial we may choose to include some of our own assets in the programme in the future subject to report to / approval from relevant committee and alignment with agreed asset management programme.

## **2. RECOMMENDATIONS:**

That Policy & Resources Committee:

- 2.1 Note the progress of the West Sussex County Council led procurement of a Delivery Partner under the Sussex Energy Saving Programme.
- 2.2 Delegate authority for Executive Director Environment, Development & Housing, in consultation with Executive Director of Finance & Resources (and subject to legal advice regarding the details of the membership agreement) to enter into Affiliate membership of the Sussex Energy Saving Partnership SPV.

## **3. CONTEXT/ BACKGROUND INFORMATION**

### **BHCC context**

- 3.1 Tackling inequality and creating a more sustainable city are key priorities in the Council's Corporate Plan aligned to One Planet Living commitments. The Council is committed to improving the energy efficiency of the City's housing, reducing the cost of living at a time when energy prices continue to rise. The aim is to help households to access affordable energy efficiency measures, in particular people on low incomes. This will assist in tackling fuel poverty and contribute to reducing the City's carbon dioxide (CO<sub>2</sub>) emissions. In addition, the Council is committed to contributing to the development of the One Planet approach to ensure Brighton & Hove's energy security is more resilient to shortages and price increases and that businesses in the city are able to realise growth opportunities creating new jobs in the environmental sector.

- 3.2 Where considering the energy efficiency of the City's housing stock there are also wider national energy challenges that need to be reflected, including:
- Rising energy costs - prices expected to double by 2030;
  - Rising energy demand - expected to double by 2050 due to electrification of transport and population growth;
  - De-carbonisation - 5% renewable energy within 8 years, 30% by 2030; 80% all energy 'de-carbonised' by 2050;
  - Energy security - UK has only 14 days power reserves compared to France and Germany with >80 days, a 5% drop in imports could lead to 'sustained blackouts within weeks'.
- 3.3 Guidance under the Home Energy Conservation Act 1995 (HECA) to English local authorities with housing responsibilities was published on 26 July 2012. It sets out requirements for those authorities to report on the measures they propose to take to significantly improve the energy efficiency of all the residential accommodation in their areas. The guidance links with the delivery of the Green Deal by local authorities. The report should identify: practicable and cost-effective measures to significantly improve the energy efficiency of all residential accommodation in their area; progress made in implementing the measures.
- 3.4 The Council has a strong track record of investing in the energy efficiency of both the council housing and private sector housing stock. With the ending of both the BEST housing renewal funding and the existing energy company obligations, future alternative Home Energy Efficiency funding opportunities have been identified through:
- Green Deal, the Government initiative to support the installation of energy efficiency measures through loans paid back from the saving on energy bills;
  - Energy Company Obligation (ECO), focusing energy companies on improving the ability of vulnerable and low income households to heat their homes affordably, and on improving solid wall properties and homes with 'hard to treat' cavity walls.
- 3.5 In 2011 over 14,500 Brighton & Hove households (12.2%) were considered to be living in fuel poverty. The potential impacts of fuel poverty and the risks of negative health outcomes of living in cold homes are identified in the draft 2012 Joint Strategic Needs Assessment, highlighting that;
- "Excess Winter Deaths are almost three times higher in the coldest quarter of housing than the warmest quarter..."
- 3.6 The domestic sector in Brighton & Hove contributes 42 per cent of the City's total carbon emissions, making this sector the single most significant source of carbon dioxide in the City. 35% of the private sector housing stock fails to meet the Decent Homes Standard; this is substantially higher than the national average. This failure is largely driven by poor standards of thermal comfort. Much of the City's stock (39.8%) was built before 1919, much higher than the national average, with solid walls and sliding sash windows, hindering energy efficiency.
- 3.7 The Brighton & Hove Renewable and Sustainable Energy Study commissioned in 2012 as part of the City Plan process identifies the importance of home energy

efficiency improvements in supporting the City to meet carbon reduction targets and the options and opportunities available to the council to do this:

“...opportunities which would have a larger scope for carbon reductions include becoming directly involved in delivering wider schemes in the City, such as the delivery of the Green Deal or district heat networks. The Council will also be looked to as a trusted source of information and support by public and commercial organisations, and has the ability to provide supportive mechanisms to drive the uptake of energy efficiency and low carbon energy generation through policy setting or coordination of funding.” Energy Study 2012.

3.8 The Green Deal is the Government initiative to support the installation of energy efficiency to householders and businesses. It is available to all householders, whether they own or rent the property. The work to upgrade buildings will be facilitated through the availability of loans paid back from the saving on energy bills.

3.9 Two key elements of the Green Deal are:

- It is not a conventional personal loan and although the cost will be repaid over time, the charge is attached to the electricity meter and paid back through the fuel bill. If the original occupier moves out, the idea is that the new occupant will pick up the charge while also benefitting from a more energy efficient property;
- The expected financial savings must be equal to or greater than the costs attached to the energy bill, this is known as “the golden rule”.

### **Sussex Energy Saving Partnership Procurement of Delivery Partner**

3.10 WSCC committed £2m to the procurement and mobilisation phase of a Sussex Energy Saving Programme. The aim has been to secure a major private sector delivery partner contractually committed:

- § To deliver programmes of work through local contractors and develop the local supply chain;
- § invest in the necessary local infrastructure;
- § provide the necessary warranties and other safeguards;
- § bring the benefits of its scale, expertise and buying power.

Brighton and Hove City Council, Crawley Borough Council and more recently East Sussex County Council, have committed officer time to support the procurement phase. WSCC have used Marksman Consulting as advisers, Acuity Legal as legal specialists and Price Waterhouse Coopers for some independent financial scrutiny.

3.11 The procurement phase proceeded more quickly than originally expected, responding to the market view that greater pace would allow a more proactive response to the commercial opportunity of ECO and establishment of a local supply chain. Two major contractors submitted compliant solutions at the Call for Final tender phase in August. These bids were evaluated throughout September and the successful bidder, Carillion Energy, was announced by WSCC on 3<sup>rd</sup> October. WSCC is currently the contracting party with the Delivery Partner.

- 3.12 In order to prepare existing businesses “Meet the Buyer” events have taken place through the Sussex Sustainable Business Partnership for Sussex businesses. This allowed contractors to meet the appointed Delivery Partner and consider the benefits and the steps required to become part of the supply chain. The event is also helping to cement the potential economic benefits of Green Deal / ECO funding to the city. The Brighton Meet the Buyer event took place on 23 Oct 2013. These events are evidence of the commitment of SESP and Carillion to ensure local businesses are at the centre of, and benefit from, the delivery of this programme of work.

### **Investment**

- 3.13 The availability of ECO funding and the recent establishment of the national Green Deal Financing Company gives the opportunity to use the funding that it has available for supporting residents through the Green Deal. WSCC has applied to join the Green Deal Finance Company on behalf of the Partnership and have been in discussion with the Department for Energy and Climate Change about options for securing a better financing mechanism to lower loan interest rates for the benefit of the customer. These funding options also allows the Partnership the strategic opportunity to consider investment in renewables, such as solar PV schemes, and commercial or non-domestic energy saving initiatives through a “non-domestic Green Deal” financing model that is currently being developed. An example of alternative funding stream is the Coast to Capital Local Enterprise Partnership has also endorsed a bid by West Sussex County Council, supported by the Council, for £66m borrowing at a lower rate from the Public Works Loan Board.
- 3.14 As a consequence of other investment funds becoming available, at this time the potential investment outlined in the report to Policy & Resources Committee (24 January 2013) is not required. If necessary the Council could consider providing funding at a later stage and changing its SESP membership status but this would be on the basis of a robust business case to identify funding and eligibility gaps and an assessment of the level of risk. This would need to be the subject of a future report to Policy & Resources Committee.
- 3.15 The Energy Company Obligation (ECO) focuses energy companies on improving the ability of the vulnerable and those on lower incomes to heat their homes affordably. This includes improving solid wall properties and those with ‘hard to treat’ cavity walls, which have not significantly benefitted from previous schemes and are less likely to achieve the ‘golden rule’. Obligated energy suppliers are required to fund measures to achieve heat cost and carbon savings. The value of this obligation is estimated to be £1.3bn per annum. It is not possible to calculate precisely the likely level of total funding of ECO funding Brighton & Hove could attract as it is dependent on the take up of measures, the ECO price negotiated per measure and, where relevant, the calculated carbon saving. However Carillion has ECO brokerage contracts in place for delivery in Sussex. An example of the level of ECO funding possible could see 30-40% funding for external wall insulation on individual properties and up to 100% for cavity or loft insulation in Carbon Saving Community Obligation areas. These are areas of defined low incomes (Lower Super Output Areas). There are 27 of these areas in Brighton & Hove.

- 3.16 The take-up nationally of the Green Deal loan has been slower than anticipated. However there is evidence of the Green Deal assessment leading to a high level of interest in the take up of energy-saving measures, potentially through other finance sources, such as ECO or private investment. This means that there may be less of a pressing need to establish the Sussex Green Deal model until demand in the market develops further. The Sussex Energy Saving Partnership has identified a strategic need to focus on how it can 'kick-start' the energy saving initiative. This may include work with the Delivery Partner and its supply chain, potentially through ECO schemes, community schemes, solar PV and other energy saving projects.

### **Sussex Partnership SPV**

- 3.17 The principal object of the Special Purpose Vehicle (SPV) is to front an energy saving programme led and procured by WSCC on behalf of contracting authorities across Sussex. The Company will provide:
- § cost-effective financing for, and procure the provision of, energy efficiency measures (including those pursuant to Green Deal plans or equivalent initiatives);
  - § renewable generation measures which are generally available to domestic and non-domestic energy consumers within Sussex.
- 3.18 Membership of the Company is drawn wholly from public sector bodies. The purpose of the proposed Agreement between members is to facilitate mutual support and co-operation in relation to delivery of the Programme and to detail the roles, responsibilities and involvement of each Member (including distinctions between Affiliate Members and Investor Members) in pursuit of delivery of the Programme.
- 3.19 Under the proposed Agreement, which will be subject to the Council being satisfied that there are no disproportionately onerous legal obligations and that its interests are protected, Affiliate Members wish to participate in the Programme and are prepared to use the appointed Delivery Partner for the provision of energy efficiency works and measures and to promote their use by residents in their area. Investor Members are prepared to participate in the same way as Affiliate Members, but in addition may be prepared to provide additional support (for example officer time), propose properties on which schemes can be undertaken and/or invest money in the company which can be used to fund works undertaken by the Delivery Partner.

## **4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

The Council can choose to not actively engage in the Green Deal and allow the market place to develop to offer services to local residents.

Subject to identifying suitable resources the Council could choose to invest directly into housing stock in the city along the lines of the previous Home Energy Efficiency grants and assistance scheme delivered through the Private Sector Housing Renewal Assistance programme.

In terms of ECO funding, should the Council chose not to follow the WSCC partnership route and start a separate procurement activity we would not achieve the risk sharing

and cost benefits of a wider partnership approach and would risk missed ECO funding in the private sector whilst any separate procurement took place.

In terms of gaining best value from ECO funding via the WSCC led partnership, Carillion will be able to go onto the open market and secure the best priced ECO funding, and maximise and Green Deal finance available, where as any direct agreement that may be reached with an obligated energy company would be based on their price for ECO funding.

## **5 COMMUNITY ENGAGEMENT & CONSULTATION**

Community engagement will play a significant part in providing information and advice to residents about improving the energy efficiency of their homes and reducing their fuel bills. Bidders through procurement have been required to evidence their experience in carrying out this type of work successfully. We are clear that any community engagement activity will need to complement and fit in with existing Council programmes. We anticipate that existing local community groups will play a key role in promoting the programme and increasing uptake.

## **6. CONCLUSION**

- 6.1 Nationally, Green Deal and Energy Company Obligation have been the main source of finance and delivery of energy efficiency to both households and businesses from January 2013 onwards. All previous sources of energy company subsidies and funding finished at the end of 2012.
- 6.2 The Sussex Energy Saving Partnership presents an opportunity to address a number of challenges including; addressing fuel poverty, reducing energy bills for all city residents, reducing CO2 emissions from housing and commercial buildings, improving our own corporate buildings and supporting local businesses and creating local employment opportunities.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 WSCC have undertaken the procurement process for the Green Deal Provider, the Council has provided officer support but has not been required to contribute to any direct initial costs.
- 7.2 The proposal to become an affiliate member of the Sussex Energy Saving Partnership SPV does not require the council to provide finance to support the scheme. However this does not preclude the council from investing in the Partnership at a later date subject to a robust business case. As a member of the partnership the council will promote the scheme to residents making best use of existing channels and networks and therefore the cost of this promotion is expected to be met from existing resources.
- 7.3 The council has the opportunity to identify potential energy efficiency improvements and renewable energy schemes from its own housing stock and operational buildings that could be delivered through the SESP programme subject to a proven business for each proposal.

*Finance Officer Consulted: James Hengeveld Date:8 November 2013*

Legal Implications:

- 7.4 The exact legal rights and obligations of the parties are to be set out in a Membership agreement and supporting documents. These are being progressed at the moment. Any agreement to become an affiliate member will be subject to the Council being satisfied that there are no disproportionately onerous legal obligations and that its interests are protected.

*Lawyer Consulted: Abraham Ghebre-Ghiorghis Date:25/11/2013*

Equalities Implications:

- 7.5 There is the potential for a large energy efficiency retrofit programme in Brighton & Hove to address a number of issues faced by vulnerable residents in the city, and those at greater risk of fuel poverty and its impacts. A full Equalities Impact Assessment can be carried out as the programme develops.

Sustainability Implications:

- 7.4 The proposals outlined above would bring significant sustainability benefits in terms of climate change and energy use and promoting sustainable communities. The Sustainable Community Strategy "[Creating the City of Opportunities – A sustainable community strategy for the City of Brighton & Hove](#)" has set targets to reduce CO2 emissions by 42% by 2020 and 80% by 2050. (4% per year short term targets in SCS). Based on the latest available City CO2 emissions; 1.2 million tonnes in 2009 and the contribution of the domestic sector (the largest portion at 42%) the annual 4% per year short term target equates to a reduction of over 20,000 tonnes per year. This needs to be considered within the context of recent investment and CO2 savings through private sector renewal. For 2011-12 through investment of BEST funded capital of £1,119,562 and the separately CERT funded 'Warm Homes' programme total installations achieved a saving of 353 tCO2.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

*There are no appendices.*

### **Documents in Members' Rooms**

None.

### **Background Documents**

None





Crime & Disorder Implications:

- 1.1 There are no significant crime and disorder implications foreseen.

Risk and Opportunity Management Implications:

- 1.2 The level of risk and opportunity associated with the programme varies dependent on the level of involvement the Council is to have in both providing an element of finance and delivery of the service. No financial investment is proposed at this time, if this were to change, subject to future approval at committee, a comprehensive assessment of risk and opportunity will be carried in more detail, and will be presented back to Committee, the mitigation of these risks can be detailed through this process.

Public Health Implications:

- 1.3 The Joint Strategic Needs Assessment identifies the relationship between poor housing and poor health outcomes, in particular fuel poverty and poor thermal comfort. Director of Public Health Annual Report has identified good quality housing as important for building wellbeing and resilience and housing in the City as an area representing a particular vulnerability. There may be significant positive public health implications through a significant home energy efficiency programme that also targets vulnerable households in the city, see above reference to Fuel Poverty and Excess Winter Deaths.

Corporate / Citywide Implications:

- 1.4 The proposals support the Council priorities:
- § Tackling inequalities
  - § Making Brighton & Hove a more sustainable city