

CABINET – 16 JANUARY 2013 EXECUTIVE SUMMARY SHEET – PART I	
Title of Report:	GREEN DEAL OPTIONS INCLUDING THE WARM UP NORTH INITIATIVE
Author:	Report Of The Deputy Chief Executive
Purpose of the Report	This report explains the forthcoming introduction of the Green Deal and considers the various options available to the Council including joining the Warm Up North (WUN) Initiative before making recommendations for a way forward.
Description of Decision:	<p>Cabinet is recommended to:</p> <ul style="list-style-type: none"> (i) Consider the options set out in the report. (ii) Agree to the proposal that the Council join the WUN Initiative subject to confirmation that the Green Deal Finance Company has been established and has the funds available to support the initiative as proposed.
Is the decision consistent with the Budget/ Policy Framework?	No
If not, Council approval is required to change the Budget/ Policy Framework	
Suggested reason(s) for Decision:	<p>It is important that the council plays a role in the delivery of the Green Deal. The programme of works that could be progressed through the initiative will contribute to a number of key priorities for the council. Actively engaging in the initiative will also provide the basis on which the council may be able to influence the delivery of the initiative towards priority targets and communicate a clear offer to local people.</p> <p>A number of engagement options are open to the Council and these range from doing nothing through to becoming a provider in its own right.</p> <p>In summary it is recommended that Partnering with a Provider affords the clearest offer to the residents of Sunderland and offers a good degree of influence to the council at a relatively modest cost. The emerging WUN initiative provides a good mechanism for such a partnering approach.</p>

Alternative options to be considered and recommended to be rejected:

The alternatives to the recommended option have been considered. These have been rejected because they do not offer a deliverable option within the appropriate timescales or have insufficient levels of control or influence.

Impacts analysed:

Equality ☒ Y Privacy ☐ Sustainability ☐ Crime and Disorder ☐

Is this a “Key Decision” as defined in the Constitution?

Yes

Is it included in the 28 Day Notice of Decisions?

Yes

Scrutiny Committee

GREEN DEAL OPTIONS INCLUDING THE WARM UP NORTH INITIATIVE

REPORT OF THE DEPUTY CHIEF EXECUTIVE

1.0 Purpose of the Report

- 1.1 This report explains the forthcoming introduction of the Green Deal and considers the various options available to the Council including joining the Warm Up North (WUN) Initiative before making recommendations for a way forward.

2.0 Description of the Decision (Recommendations)

- 2.1 Cabinet is recommended to:
- (i) Consider the options set out in the report.
 - (ii) Agree to the proposal that the Council join the WUN Initiative subject to confirmation that the Green Deal Finance Company has been established and has the funds available to support the initiative as proposed.

3.0 Background

- 3.1 Like all local authorities Sunderland City Council has an obligation under the Home Energy Conservation Act (HECA) to provide support for improvements to housing with the objective of reducing energy bills and reducing fuel poverty. Reporting under HECA is to resume with the first report required by 31 March 2013.
- 3.2 To date assistance for home insulation improvements has been afforded by statutory utility funding in various guises with the current programmes being the Carbon Emissions Reduction Target (CERT) and Community Energy Savings Programme (CESP). CERT funding supports the current Sunderland Energy Efficiency Partnership (SEEP) support delivering cavity wall and loft insulation at reduced costs or free to eligible households.
- 3.3 In addition the national fuel poverty programme is delivered through the Warm Front grants programme that provides heating systems and repairs to qualifying households.
- 3.4 CESP funded work in Sunderland has been confined to social housing improvements delivered by Gentoo. There have been no private sector beneficiaries of CESP in the City since these projects have been focussed on RSL housing stock.
- 3.5 CERT, CESP and Warm Front support is scheduled to end by 31 December 2012 to be replaced by the Green Deal scheme described in the next section.

3.6 It is important that the council is able to continue to facilitate energy efficiency improvement measures in the city as these enable the council to progress a number of policy commitments and provide benefits for local residents. In particular the delivery of the Green Deal will contribute to measures to:

- tackle fuel poverty and the adverse health impacts of poorly heated homes;
- develop local employment opportunities and benefit the economy;
- encourage private sector investment in the local housing stock;
- meet the carbon reduction commitments embedded in the Covenant of Mayors and Government targets.

4.0 The Green Deal Initiative

4.1 The Green Deal is a UK Government sponsored framework introduced in the Energy Act 2011 to allow private firms to offer UK consumers (both domestic and non-domestic) specified energy efficient improvements to their buildings including, but not limited to, solid wall insulation, loft insulation, cavity walls and new boilers. The installation of double glazing has recently been added in the list of energy efficiency improvements that can be funded through the Green Deal. Businesses and publicly owned non-domestic properties can also benefit from the Green Deal measures.

4.2 Consumers repay the cost of improvements by means of an additional charge on their energy bills over a period of 25 years. An important characteristic of the Green Deal is that the payment remains a charge on the property's energy bill until repaid and does not follow the individual bill payer should they move house.

4.3 The core requirement of the Green Deal is that the proposed works must meet the 'Golden Rule': savings made during the period of the charge must exceed the total cost (actual cost plus loan interest) of the energy efficiency works. Providing that the Golden Rule is met consumer repayments will be collected by the utility companies as part of the consumer's electricity bills.

4.4 For domestic properties that do not meet the Golden Rule (GR), the energy companies may offer a subsidy towards the improvement measure to reduce repayments through the Energy Company Obligation (ECO). ECO, places a requirement on energy retailers to promote measures that either achieve carbon savings in domestic properties or reduce heating costs in low income and vulnerable households. It is expected that energy retailers will achieve this by offering subsidies to households for qualifying measures. ECO financed improvement can be delivered separately from the core Green Deal offer but it seems likely that most ECO interventions will be incorporated in an overall Green Deal delivery package.

- 4.6 Locally, it has been estimated that over 40,000 dwellings in Sunderland lack cavity wall insulation and many also lack modern standards of loft insulation. In addition, there are over 5,000 solid wall properties that would benefit from insulation. Clearly, there are many households in the city that could benefit from improved energy efficiency measures. However, this is no guarantee that the Green Deal will prove to be a successful replacement for the existing energy improvement schemes. Soft market testing carried out to test the Green Deal model earlier this year suggested that householders may not respond positively to the options available.

5.0 Progressing the Green Deal – The Local Authority Role

- 5.1 The Department of Energy & Climate Change (DECC) identifies three potential roles for Local Authorities in supporting the roll out of the Green Deal as follows:
- Promoter – the Local Authority promotes the Green Deal to their local residents. Under this approach, the Local Authority, or a group of Local Authorities, adopts a twin track approach by taking an active role in promoting demand and identifying packages of work which will be suitable for delivery through the Green Deal mechanism; and establishing a framework of certified Green Deal Providers including the Green Deal assessors and Green Deal installers.
 - Partner – the Local Authority works in partnership with private sector Green Deal Providers to facilitate delivery of the Green Deal to their local area. A Local Authority can procure a delivery partner who will work with them to identify and actively promote demand, survey properties and provide costs for undertaking the Green Deal works. This will include the need to source finance for improvements. The provider would undertake the work, or as a minimum, manage the installation of the works; and provide the warranties.
 - Provider – the Local Authority becomes a Green Deal Provider co-ordinating finance and delivery to local residents.
- 5.2 The role of Provider offers the highest level of control for the local authority but requires the development of a potentially costly dedicated delivery mechanism and is probably better suited to local authorities who remain in control of their housing stock. The roles of Promoter and Partner probably require the same level of engagement and input for the local authority but by formally partnering with a delivery agent a local authority is able to better influence and direct activity towards local priorities. Looking at the options objectively it is possible to conclude that the role of Partner is the most effective at delivering the benefits associated with the Green Deal.

6.0 Delivering the Green Deal in Sunderland through Partnership – The WARM UP NORTH Option

6.1 One delivery option available to the council is to join the WUN Initiative. This initiative which has been developed by the ANEC with Newcastle City Council (NCC) as the accountable body is modelled on a similar scheme in Birmingham and involves the engagement of an independent third party provider to deliver domestic energy efficiency improvements via the Green Deal. All 12 local authorities in the North East were invited to join the initiative and to date five authorities (Newcastle, South Tyneside, Northumberland, Durham and Darlington) have formally joined the scheme. Other authorities in the region decided to take a watching brief with the option to join the scheme at a later date. It is worth noting that, unlike SCC the participating local authorities have some level of control and responsibility for housing stock.

6.3 Since January, when the details of the scheme were first communicated several key developments have occurred that have materially changed the commitment required by the local authorities participating in the WUN Scheme. A significant change is that it is now proposed to fund energy efficiency improvements using funds from the Green Deal Finance Company and not from the participating local authorities. However, the use of local authority funding remains a possibility as a reserve position if the GDFC is not operational at the commencement of the initiative.

6.4 Other WUN related developments include:

- Confirmation of funding of £1.108m from Intelligent Energy Europe (IEE) to assist with the procurement costs of the project.
- Commencement of the procurement of the project for which sixteen expressions of interest were received, resulting in 8 pre-qualifications being submitted. From this six of the outline proposals met the quality threshold which has been subsequently reduced to a short list of three. The preferred bidder is envisaged to be appointed in March / April with contract close likely to be in place by June.
- WUN has been granted £1.2m from DECC towards Go Early schemes and all participating will benefit from this resource.
- The Green Deal has always included energy efficiency improvements to commercial buildings and now includes publicly owned non-domestic properties and this has the advantage of providing a greater degree of control on project spend.

7.0 Implications associated with the Council joining the Warm Up North Initiative

7.1 In the first instance it would be necessary for the Council to sign the Memorandum of Understanding (MOU) that has been used to underpin the procurement process to date. This document has been agreed and signed by the current five participating local authorities and therefore the council would be required to sign the document as drafted.

- 7.2 Schedule D of the MOU sets out the financial obligations to which a participating local authority is committed. The initial requirement is a contribution of a maximum of £50,000 towards the cost of procurement. The current costs of undertaking the procurement are estimated at £1,566m which is significantly offset by the IEE grant of approximately £900,000 (the true actual value of the grant will depend on the Sterling / Euro exchange rate at the time of payment). The council's contribution would need to be paid by March 31st 2013.
- 7.3 There are clawback requirements relating to the IEE funding. There is a requirement to expend 15 times the grant value on delivery, which equates to roughly 2,500 properties across the WUN area, over the first three years of the scheme. The clawback level is capped at 10% of the grant sum or approximately £90,000 and this would be shared between the partners. The MOU sets out the basis on which any repayment would be shared. A Key point to note is that the £50,000 cap referred to in paragraph 7.2 does not apply to clawback.
- 7.4 Schedule D also retains the obligation for each partner authority 'to cover the cost of any works carried out by the Delivery Partner on properties that fall within their boundary and that were arranged with the knowledge and consent of the Partner Authority, unless appropriate funding can be sourced from a 3rd party lender such as the Green Deal Finance Company.' This has the effect of exposing the council to a potentially significant financial commitment. However, there would be no specific obligation on Sunderland to contribute properties to the contract as this has been progressed on the basis of existing commitments and these are considered to be sufficient to hit the target of £17m worth of works (approximately 2,500 property improvements) by June 2015 in order to comply with the European grant that has been awarded. In addition, the need for the 'knowledge and consent of the Partner Authority' provides the basis on which the council could manage any financial exposure associated with the scheme.
- 7.5 Failure to deliver the £17m worth of works specified above would result in a proportion of the grant being returned to Intelligent Energy Europe. In relation to this requirement and based upon the number of participating authorities, the maximum exposure to clawback for the council would be approximately £90,000. Opportunities to further mitigate this risk are being considered.
- 7.6 Crucially, partners are expressing confidence that the Green Deal Finance Company (GDFC) will be operational and able to provide finance for the measures delivered through the contract. If funding is available through the GDFC the obligation for Partner Authorities to fund improvements within their boundaries will fall away.
- 7.7 The GDFC is an industry led vehicle with the specific purpose of providing low cost finance for Green Deal loans. Its members include the big 6 energy companies, housing providers, building contractors, banks and also a number of local authorities.

- 7.8 The ability of the GDFC to provide the necessary finance will depend on the response to the call for funding. In order for the GDFC to raise sufficient capital, primarily from the Green Investment Bank, it must provide a level of funding (junior capital and development / incorporation funding via a stakeholder loan) from its members and stakeholders. In total, the GDFC is aiming to attract circa £54m from its members and stakeholders. There is a financial commitment from the Green Investment Bank (GIB) on the understanding that the balance is found from other members. Some initial funding has been committed by DECC (£13m) towards the development and incorporation costs of the GDFC. Other stakeholders have been approached for capital investments. WUN partners are considering an initial revenue investment of £250,000. This would be invested for 10 years and would attract a minimum return of 8% up to a maximum of 15.74%.
- 7.9 Some local authority partners are considering the investment of larger sums in the form of junior capital but are seeking assurances that money to the value of the investment is spent in their local authority area and that this then leverages additional spend. Investments of the scale being considered would require prudential borrowing and are envisaged to attract a return of 8% to 10% over a 20 year period.
- 7.8 In addition to the financial obligations set out in the MOU Section 5 of the document sets out a number of other responsibilities that the council will need to meet. Some of these relate to the delivery of the scheme and include responsibilities associated with the marketing and promotional activities. Others relate to the reporting requirements and the need to work with the delivery partner to direct activity to local opportunities and priorities. The exact requirements for which won't be determined until the procurement process is concluded. It will be important that the council has the resources in place to meet these delivery responsibilities.
- 7.9 Ultimately, the contract to deliver WUN will be between NCC and the successful bidder. This is to be underpinned by an Inter Authority Agreement (IAA) which would replace the MOU. The IAA has not been developed at this stage and will need to reflect the specifics of the arrangements to be entered into with the selected contractor.

8.0 Reasons for the Decision

- 8.1 It is important that the council plays a role in the delivery of the Green Deal. The programme of works that could be progressed through the initiative will contribute to a number of key priorities for the council. Actively engaging in the initiative will also provide the basis on which the council may be able to influence the delivery of the initiative towards priority targets and communicate a clear offer to local people.
- 8.2 A number of engagement options are open to the Council and these range from doing nothing through to becoming a provider in its own right.

8.3 In summary it is recommended that Partnering with a Provider affords the clearest offer to the residents of Sunderland and offers a good degree of influence to the council at a relatively modest cost. The emerging WUN initiative provides a good mechanism for such a partnering approach.

9.0 Financial Implications

9.1 At this stage by agreeing to participate in the procurement process, the council would be required to contribute a maximum of £50,000 towards the procurement costs. In the event that either the procurement was aborted or the project failed to meet the funding conditions associated with the IEE funding then the council would be faced with contributing a maximum further amount of £90,000 through grant clawback.

9.2 Any proposal to provide funding to the GDFC would be subject to further consideration and future cabinet approval.

10.0 Alternative Options

10.1 The alternatives to the recommended option have been considered. These have been rejected because they do not offer a deliverable option within the appropriate timescales or have insufficient levels of control or influence.

Background Papers

Green Deal: A Summary of the Government's Proposals (December 2010)

<http://www.decc.gov.uk/assets/decc/legislation/energybill/1010-green-deal-summary-proposals.pdf>

Warm Up North – Summary Market Information (May 2012)

<http://www.warmupnorth.com/sites/default/files/Market%20Awareness%20Day%20-%20Brochure%20-%20May%202012.pdf>

