
Cabinet

2nd April 2013

Report of the Cabinet Members for Crime & Stronger Communities, Transport Planning & Sustainability & Health, Housing & Adult Social Services

MAXIMISING THE OPPORTUNITIES FROM THE GREEN DEAL IN YORK

Summary

1. The purpose of this report is to outline the business case for the Leeds City Region (LCR) Green Deal, and to consider City Of York Council's level of participation within the scheme.

Background to the Green Deal and the Leeds City Region (LCR)

Model:

2. The Green Deal (GD) is one of the Government's flagship initiatives and will operate by providing energy efficiency and other works at no up-front cost to the householder across all tenures and businesses.
3. The costs of the improvements will be met by a GD loan attached to the property. This loan is repaid by the savings made from the property's electricity and heating bills as a result of having the energy efficiency measures installed. This is an innovative and significant step change from the previous grant culture.
4. A critical part of the GDs is the 'Golden Rule' whereby the annual financial savings made as a result of the installed GD measures must be greater than the annual GD loan repayment - therefore the net cost to householder/ business will always be zero.
5. When considering the above, it is clear that in some cases, especially where the properties are hard to treat, the financial savings alone will not cover the costs of the loan. Therefore to overcome this an 'Energy Company Obligation' (ECO) has been developed.

6. Energy companies will be obliged to set aside funds to pay for efficiency improvements. This will replace all the existing subsidies and grants for home energy conservation measures. ECO will be in three strands:
 - 1) *Affordable Warmth ECO*: Pays for any qualifying measure that will reduce heating costs. Targeted only at vulnerable households with low incomes or on benefits;
 - 2) *Carbon Saving ECO*: This is a subsidy towards the cost of expensive measures such as solid wall insulation. Any householder is eligible, and the measures will be installed as part of a Green Deal package. The subsidy allows these costly measures to meet the golden rule. The Carbon saving element of ECO is the most relevant for the Green Deal, as it will be used to top up the cost of some Green Deal measures;
 - 3) *Carbon Saving Communities*: A sub-set of “carbon saving ECO” will be targeted at low income communities (the 15% most deprived Lower Super Output Areas) so measures can be installed on an area basis. There are two such super output areas in York which will qualify for this funding.
7. From the 28th January 2013 private Green Deal Providers have been operating and are able to fund energy efficiency, affordable warmth and area-based energy efficiency measures to all householder in the private sector. Although it should be noted that nationally uptake has been slow.
8. By the end of March 2013 other forms of funding streams as Warmfront, Carbon Emission Reduction Target (CERT) and Carbon Energy Saving Programme (CESP) will no longer available. Leaving the GD/ECO as the only viable option left for residents to improve their homes.
9. A cross directorate team with officers from sustainability, housing, finance, legal procurement and property services was set up in 2012 to consider the options available to the council to maximise the opportunities for the city. These include:
 - Support for the maintenance and generation of local jobs and skills

- Support for wider local strategic priorities in particular our ambitious target to reduce carbon emissions by 40% by 2020 and better health outcomes. Without the Green Deal (or its predecessors such as CERT) it will be difficult to secure funding for the levels of retrofit required to support York reaching its challenging carbon reduction targets by 2020.
- A framework to help to reduce fuel bills for local residents and businesses and thereby reduce fuel poverty levels in the city;
- Opportunities for local economic and physical regeneration; There are two Lower Super output areas in the city which have been identified as being eligible for measures for one of the strands of ECO

10. This group has investigated options to maximise delivery of the Green Deal in York. These included

- be a provider and deliver the Green Deal directly to their local residents and businesses, co-ordinating finance and delivery;
- work in partnership with commercial Green Deal providers and community partners to deliver and facilitate delivery;
- only promote and act as advocates for the Green Deal locally.
- Do nothing at all

11. To maximise the benefits of the Green Deal in York, and to achieve benefits as outlined in paragraph 27, options 3 and 4 were discounted. Models in line with options 1 and 2 have only been investigated.

LCR Model

12. The LCR business case was developed in conjunction with the consultants. Essentially the current proposal is that the LCR Councils will procure a commercial partner to deliver the GD/ECO. It is important to be clear that the Green Deal will still be available to all York residents from the national commercial registered providers who will be contacting households to offer their brands. However the council branded scheme's aims, provided in partnership with a private sector partner, are to drive competition in the market, improve take up, to try and ensure that our more vulnerable

residents are offered additional grant funding (through the ECO) and perhaps could help drive down overall prices. The LCR option will allow us to focus on helping the more vulnerable residents and ensure that a provider targets the more difficult to treat homes (solid wall properties), not just the easy to treat homes in York, in addition to the general market coverage.

13. The Council 'brand' is also considered critical to promoting take-up, to provide reassurance to householders of the legitimacy of the Green Deal as a scheme. In Birmingham the access to the council brand was essential and was of more importance to their provider than access to capital funding. This trusted brand is becoming increasingly important as there are already reports of non-accredited companies offering deals under the Green Deal banner at over-inflated costs and repayment schedules, which may affect perceptions and take-up overall.
14. Soft market testing is being undertaken by the LCR with the industry to gauge their interest and support for working in partnership with the Council.
15. In order to attract sufficient companies capable of managing a city region-wide Green Deal it will be critical to have a scheme of significant scale. The consultant's advice is that the scheme needs to guarantee a minimum contract value of about £80m (of which at least £20m is Carbon Saving ECO) which would provide green deal packages of improvement for approximately 12,000 homes. It is estimated that this regional procurement exercise would take 9-12 months, incurring £600,000 start-up costs.
16. Until recently, there was uncertainty surrounding the level of funding the LCR scheme could secure through the Green Deal Finance Company (GDFC) to deliver green deal packages. Without access to this finance option, LCR council partners have also investigated prudentially borrowing money to pay for and deliver Green Deal Packages through a commercial partner. It is now believed that the LCR model can utilise GDFC finance to deliver the regions' GD packages. This means the LCR model no longer needs to seek councils to prudentially borrow and fund delivery of GD packages and measures.
17. If we wish to invest in the Green Deal we would need to have direct dialogue with the GDFC as it is now outside of the LCR proposal. It should be noted that we are discussing this with Finance to assess

the risks of such a approach but that this doesn't affect the decision whether to join the LCR procurement but it should be noted that currently there is no funding identified to support these additional costs

18. The proposed LCR scheme would initially be a three-year project. Taking into account the time needed for Council agreements, procurement via the OJEU, and marketing, the expected launch date would be in March 2014.
19. Across the LCR there is a collective ambition to target between 14 - 19,000 homes indicating that the minimum target of 12,000 homes required by the business case should be able to be met, although it should be noted that ultimately the key figure is the total value of works carried out rather than the number of properties.
20. In terms of York's own ambitions, we would expect to be able to install measures in 615-1230 homes over the first three years. This range is based around installing measures to our accessible market (having taken into account which will be difficult to target e.g. listed buildings/homes in conservation areas etc) and is in line with the take-up we have achieved in previous home energy efficiency campaigns.
21. If York wants to be part of the formal procurement process to secure a LCR GD provider they must confirm their continued participation by the 11th of April 2013 to enable the LCR to begin a competitive Dialogue OJEU procurement process from May 2013. There are considerable concerns that if a viable scheme is not in place by March 2014, that the LCR Councils may be unable to access ECO funding as it may have already been committed until the next round which will start in 2015.
22. York will also have to sign a Memorandum of Understanding and agree to fund £41k towards the total procurement stage cost.
23. In addition to the £41k, and to maximise delivery in York, a further £5k is recommended to support the collation and analysis of data to target properties in fuel poverty or that are hard to treat.
24. The recent guidance to local authorities issued pursuant to the Home Energy Conservation Act 1995 (HECA) clearly recognises and expects that council will use their position to improve the energy efficiency of all residential accommodation in their area. It is clear

we will need to provide progress reports to government on uptake of the Green Deal and ECO alongside other significant efficiency improvements and measures which the council has developed to implement improvements cost effectively.

Options

25. There are currently 2 options to maximise delivery of the Green Deal in York which Cabinet are being asked to consider:
 - **Option 1** proceed with the LCR scheme as a partner and proceed to full procurement stage (~£41k)
 - **Option 2:** not to proceed with LCR GD scheme and look at other local options (currently none are as developed as the LCR model)

Analysis

26. Option 1 – LCR Delivery Model: Whilst details are still to be confirmed this option has potential to deliver a credible programme. It also has greater potential for local job creation, training and skills development and to tackle climate change and fuel poverty priorities in the City.
27. When considered against The Council Plan priorities this option will support three of the five priorities with real opportunities to create jobs and grow the economy if the procurement phase is able to ensure the use of local installers and new job opportunities for York. In addition it will fulfil the requirements of HECA.

Advantages of option 1	Risks associated with option 1
<p>Potential local training / employment opportunities Potential for direct stimulation of local economy</p> <p>More scope to ensure the most vulnerable / less attractive properties in York will be included in the programme (private GD providers are more likely to 'cherry pick' the best properties to maximise profits)</p> <p>Will enable the council to fulfil its legal requirements under HECA</p> <p>Support for wider local strategic priorities in particular our ambitious target to reduce carbon emissions by 40% by 2020 and better health outcomes. Without the Green Deal (or its predecessors such as CERT) it will be difficult to secure funding for the levels of retrofit required to support York reaching its challenging carbon reduction targets by 2020.</p>	<p>Depending on the procurement of a LCR GD programme, there is the risk that training / employment opportunities and direct stimulation of local economy may only occur in Leeds with no or reduced local benefit to York</p> <p>Lower than expected uptake of GD measures so unable to sign up the minimum 12,000 homes across the region and sufficient homes in York to make the model financially viable/stable.</p> <p>Reputational risk to LAs associated with poor installations and customer service Green Deal provider/s could be put off by over prescriptive tendering process</p> <p>Length of time before procurement process completed means it is unlikely any measures will be installed before 2014</p> <p>Potential future changes in government policy (ala the feed in tariffs programme) once operating, and without additional capacity / resource to support roll out, current internal staff may be unable to maximise delivery of the model in York.</p>

28. Option 2 – Not to proceed: This option would let the market deliver GD as it sees fit, with little or no council involvement. This would mean that CYC would have no designated model to deliver energy efficiency improvements to the private housing stock post 2013 and this will greatly affect the city's ability to improve housing standards, reduce fuel poverty and decrease carbon emissions from the

domestic sector (currently approx. 38% of York’s carbon footprint). It would also mean that we would have very limited involvement in the homes and areas targeted, and could result in those in greatest need missing out.

Advantages of option 2	Risks associated with option 2
<p>No upfront investment required by public sector bodies so no financial risks to LAs</p> <p>No resource expenses / burden No or less reputational risk to LAs as a result of poor performance</p> <p>Arguably more scope for private sector expertise / commercial know how and innovation resulting in a more effective / deliverable approach</p>	<p>Less influence over stimulus for local jobs and the economy No potential for income generation stream for LAs</p> <p>Potential failure to achieve priorities on fuel poverty / climate change as Green Deal Providers opt to work in other local authority areas through agreed partnership GD programmes such as the LCR model.</p> <p>Exclusion of those who need assistance most</p> <p>Won’t enable the council to fulfil its legal requirements outlined in HECA</p> <p>Less support for wider strategic priorities including reducing carbon emissions and improving health.</p>

Council Plan

29. When considering the impact of the proposals against the priorities set out in the council plan, the recommended option positively impact on three of the priorities:

- Create jobs and grow economy – The procurement stage of this work has the potential to have a positive impact. Opportunities could be local and regional;
- Protect the Vulnerable – Whilst not always a direct relation, often those properties in most need house some of the most

vulnerable in our city. The council will have some ability to ensure that areas most in need are targeted;

- Protect the environment – The work carried out under the scheme will have a direct impact on reducing carbon emissions within the city.

Communications

30. There has been significant communication between officers from the council with LCR colleagues and the industry. There have been regular briefings on the LCR business model to the LCR Chief Executive and Leader’s meeting.

Implications

31. The majority of the implications of this report are considered within the body of the report. Key implications are:

- **Financial:** The following tables illustrate the proposed revised procurement and legal set up costs and local authority contributions (please note this has been reduced from £1.75m). The revised breakdown are presented as revised **maximum** costs and subject to further confirmation

Action	Cost (£)
Pre-Procurement development and OJEU competitive dialogue procurement support by LCC PPU	278,000
External legal advisors	50,000
External procurement advice, supplier warming and industry workshops and events	30,000
Local Authority and other specialist officer support through the Competitive Dialogue process	100,000
Job creation and supply chain strategy and delivery plan	7,000
Market research	50,000
LCR Partnership and technical coordinator	35,000
Contingency	50,000
TOTAL	600,000

LA	Share of Private Sector Stock (1.04m) (agreed CXs 19/11/2012)	
Barnsley	8.01%	£48,000
Bradford	16.1	£96,000
Calderdale	7.45	£45,000
Craven	2.29	£14,000
Harrogate	6.03	£36,000
Kirklees	14.28	£86,000
Leeds	25.22	£151,000
Selby	3.01	£18,000
Wakefield	10.79	£65,000
York	6.82	£41,000
		£600,000

A Delivery Innovation Fund bid has been successful and fully covers the York's contribution towards the procurement costs. In addition the bid enables the council (£5k) to purchase energy performance data of the stock and collate and analyse data to create a targeted approach to maximising the LCR model in York. To date officers have not identified any other costs to the council as a result of this programme such as additional officer time to help deliver the scheme.

- **Human Resources (HR):** None
- **Equalities:** The Green Deal including ECO will be the only option available for residents from the beginning of 2013, following the demise of current government programmes such as CESP/CERT and Warmfront.
- **Legal:** None
- **Crime and Disorder:** None
- **Information Technology (IT):** None
- **Property:** None

Risk Management

32. The risks associated with this proposal are set out within the body of the report.

Recommendations

33. That Cabinet is asked to:

- Approve option 1 to proceed with the LCR scheme as a partner and proceed to full procurement stage.

Reason: To ensure that the council participate in a trustworthy scheme partnership with other local authorities and benefit from the economies of scale and by doing so improve take up and help to ensure that our more vulnerable residents are offered additional grant funding (through the ECO).

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	Report Approved		Date 27 February 2013
		✓	
Specialist Implications Officer(s) None			
Wards Affected: List wards or tick box to indicate all			All ✓

For further information please contact the author of the report

Annexes

None