



<u>Portfolio Holder Decision Making</u> <u>Session and date/time</u> - Planning, Housing and Commissioning (Central)  25 <sup>th</sup> July 2013  2 pm
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<u>Item</u>  <b>1</b>  <u>Public</u>
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## **Request to commence dialogue with Carillion Energy Savers (CES) to potentially become the Green Deal Delivery partner for Shropshire Council.**

**Responsible Officer**     Andy Evans

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### **1. Summary**

1.1 The Energy Company Obligation (ECO) and Green Deal (GD) have been introduced by the Government as a means of improving the energy efficiency of homes, saving residents money, reducing fuel poverty and cutting carbon emissions. They also present opportunities to deliver the Council's vision and priorities for inward investment, business growth and improving the wellbeing of residents.

1.2 The GD is a financial mechanism open to all households. Retro-fit energy efficiency measures are funded by a GD Provider in the form of a loan or charge to the property, which is paid back through electricity bill payments. It works on the basis of the "Golden Rule" whereby the regular repayments made via the energy bill must be less than or equal to the bill savings made. This means that there should be no net increase in costs to the customer and they avoid upfront payments. As the loan is paid off and utility prices rise, there is scope for increased savings.

1.3 Along with 33 other local authorities in the West Midlands, Shropshire Council opted in to the Official Journal of the European Union (OJEU) process for the Birmingham Energy Savers (BES) Framework of which Carillion Energy Services (CES) is the appointed Green Deal Provider.

1.4 This report recommends the Council commences formal dialogue with CES, taking advantage of the BES Framework contract in order to maximise both ECO and GD opportunities and at the same time significantly reducing procurement costs.

1.5 During this period of dialogue Shropshire Council can withdraw from discussions at any point prior to a contract being signed.

1.6 Following the dialogue period, a report will be presented to Cabinet which will fully detail the CES offer and benefits to Shropshire. Subject to approval by Cabinet, the Shropshire Council Green Deal partnership would be approved and delivery by CES would commence.

1.7 This period of dialogue will be at no financial cost to Shropshire Council. CES have confirmed that they will cover in full any legal fees incurred by Shropshire Council in connection with the dialogue process.

### **2. Recommendations**

2.1 That approval is given to commence dialogue with CES utilising the Birmingham Energy Savers Framework contract, to coordinate local delivery of ECO and Green Deal opportunities. It is anticipated that dialogue would be concluded by end of November and at that time a further report would be presented to Cabinet which would detail the offer from CES.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

3.1 Fuel poverty is a significant issue for Shropshire. Latest figures show that 21.2% of households experience fuel poverty. The number of fuel poor households in Shropshire is 6% higher than the national average. The Energy Company Obligation (ECO) and Green Deal (GD) present an opportunity to significantly reduce levels of fuel poverty through improving the energy efficiency of homes and saving residents money on rising utility bills. Tackling fuel poverty is particularly challenging in Shropshire due to a number of factors. This includes having an older than average housing stock; high numbers of properties which are off gas grid and historical issues connected to utility companies targeting easier to treat urban areas for energy efficiency measures in order to meet their obligations.

3.2 Utilisation of GD and ECO also presents opportunities for non-residential and commercial premises including the Council's own assets.

3.3 GD and ECO also present opportunities to deliver the Council's vision and priorities for inward investment and business growth. In particular, the partnership with CES would present significant opportunities for local small businesses in the environmental technology sector and maximise local spend.

### 4. Financial Implications

4.1 Shropshire Council has received written confirmation from CES that all legal fees connected with the CES negotiation stage will be reimbursed in full by CES. The Solicitors (Bevan Brittan) have confirmed in writing that all the legal work connected with negotiations will be delivered at a fixed rate (including disbursements) of £25,000 + VAT. CES will make a payment of £25,000 to Shropshire Council covering the full costs of legal fees associated with dialogue with CES. If, for unseen reasons, the dialogue/negotiation process takes longer than anticipated or requires more work Bevan Brittan have confirmed in writing that they will cover any additional costs.

Therefore, there will be no net cost to Shropshire Council arising from the negotiation/dialogue process with CES.

There are no other financial costs to the Council through this dialogue. The potential income and savings to the Council will be negotiated and a report will be produced for Cabinet following these negotiations which will fully detail income and savings.

### 5. Additional Information

#### 5.1 What is the Energy Company Obligation (ECO)?

The ECO replaces existing energy efficiency schemes, namely the Carbon Emissions Reductions Target (CERT) and Community Energy Savings Programme (CESP) and the "Warm Front" scheme. ECO funding can provide up to 100% grant assistance for retro-fit energy efficient measures (e.g. efficient boilers, insulation, solid wall cladding) in low income and vulnerable households. The relative proportion of ECO funding available to individual households is evaluated during the Green Deal Assessment process.

5.2 There is £1.3 billion of ECO funding available each year in the UK up to 2015. The fund is split into three categories:

- The **Carbon Saving Obligation (£760m)** provides additional support for hard to treat homes that cannot fully fund energy efficiency improvements through Green Deal finance alone.
- The **Affordable Warmth Obligation (£350m)** provides support to low income and vulnerable households least able to heat their homes to an adequate standard. Eligibility will be restricted to households who are in receipt of certain benefits and tax credits.
- **Carbon Saving Community Obligation; (£190m)** is aimed at low income and rural areas.

#### 5.3 How will the ECO work?

ECO funding will be brokered via a Green Deal Provider following an assessment of which households qualify. Providers need to work closely with Local Authorities to identify low income households based on benefit records. In addition, the Local Authority can significantly improve take up via active promotion of the scheme and provider.

5.4 To date, the Authority has received a number of enquiries from companies interested in brokering the ECO fund and working with the Council on identifying eligible properties. It is therefore important to agree a co-ordinated, procurement-compliant approach prior to the funding being available.

### 5.5 What is the Green Deal (GD)?

The GD is a financial mechanism open to all households. Retro-fit energy efficiency measures are funded by the GD provider, in the form of a loan, and then re-paid through electricity bill payments. It works on the basis of the “Golden Rule” whereby the regular payments made via the energy bill must be less than or equal to the bill savings made. This means there should be no net increase in costs to the customer and they avoid upfront payments. As the loan is paid off and utility prices rise, there is scope for reduced bills. The GD is also anticipated to be opened up to non-domestic and commercial properties in the future which could bring potential benefits for organisations, including the Council.

5.6 Householders can place a charge on the property (via electricity bills) for up to 25 years to fund the measures. This differs from conventional borrowing because the householder only repays the charges whilst they are the energy bill payer. This means that the charges are transferred (or conveyed) between owners or tenants at times of occupancy changes.

5.7 Nationally the Green Deal is intended to improve the energy efficiency for 26 million homes and up to 2.8 million commercial properties by the year 2030.

5.8 The ‘Golden Rule’ principle limits the amount of Green Deal finance that can be attached to the energy bill and focuses upon packages of measures that will create instant savings. Where a Green Deal plan does not meet the ‘Golden Rule’, Green Deal providers can receive part-payment via other means, including upfront payment by the customer or from the ECO fund.

### 5.9 What are the options for Shropshire Council?

The Government has identified a number of roles that a Local Authority can choose to take to maximise local benefits from ECO and GD. In summary the options are:

1. **Do Nothing:** business as usual with very limited promotion
2. **Promoter:** promoting the GD and associated funding to residents without signposting to any one Provider
3. **Partner:** working with a GD Delivery Partner who would broker ECO funding on behalf of residents. The Council would work actively to identify households which are eligible for funding and to encourage take up
4. **Provider:** entering into finance arrangements with householders to deliver the GD

The Marches Local Enterprise Partnership Board delegated authority to the Marches Planning and Housing Partnership (MPHP) to identify specific options for the Marches area. As such, MPHP established a Member led Task and Finish Group (the Shropshire Council representatives were Cllr Price and Cllr Butler), which was facilitated by Marches Energy Agency to consider options.

Over the past 6 months, a range of activity has taken place including facilitated workshops and visits in order to identify possible options. It is worth noting that Telford & Wrekin Council has opted to work with CES as Green Deal Delivery Partner. A shortlist of four options was identified as follows:

- a) CES / Birmingham Energy Savers offer
- b) Work with Walsall’s Housing Group Delivery Partner Option (a significant time to completion)
- c) Community Interest Company (investment needed to set up and agreements with two other LA’s)
- d) Producer Model (the Provider model referred to above)

Following further in-depth investigation into each model, the BES framework currently offers the greatest opportunities for residents and local businesses and also provides the least risk to the Council.

## 6. Conclusions

6.1 If we do not hold formal dialogue with CES, we will not be in a position to fully explore the opportunities for the Council and the Shropshire area and will potentially be forced into a “do nothing” or “promoter” role or have to start exploring an expensive and time consuming procurement process to engage with an alternative Green Deal provider.

6.2 The “do nothing” and “Promoter” roles require minimal input from the Council but may mean opportunities to maximise benefits to local residents and businesses are missed.

The “Partner” approach is more pro-active and would ensure ECO funding opportunities are maximised. The final option is for the Authority to become a certified GD “Provider” in its own right. However, the time and costs associated with this approach make this approach prohibitive given current financial and resource constraints.

6.3 The four options have been explored by the Marches Planning and Housing Partnership, although the Community Interest Company model and the Walsall Housing Group options are currently in their infancy and currently do not offer the Council a viable alternative in terms of cost and resource required. However, progress of these options will be monitored in parallel with dialogue with CES.

6.4 Along with 33 other local authorities, Shropshire Council is a signatory of the Birmingham Energy Savers (BES) Framework of which CES is the appointed Green Deal Provider.

6.5 Currently, a large number of West Midlands Authorities have either commenced or are about to commence dialogue with CES. These include all 6 of the Worcestershire districts, Wolverhampton City Council, North Warwickshire and Nuneaton and Bedworth. It is likely that further Authorities, including Herefordshire Council, will also commence dialogue shortly.

### 6.6 Local Operation of the BES Framework

Under the BES Framework CES would undertake:

- marketing, engaging customers and selling energy efficiency measures
- surveying, assessing, refurbishing and maintaining properties
- managing the local supply chain growth and innovation
- delivering local employment and training opportunities, securing finance and managing loans
- establishing public/ private partnerships and governance arrangements

6.7 As a partner, the Council would support CES in delivering the ECO and GD locally by:

- coordinating all energy efficiency activity within Shropshire
- utilising the network of partners and employees to engender trust in the scheme.
- providing a client function in accordance with agreed contractual arrangements meaning that the Council will be heavily involved in monitoring and auditing CES from the outset
- Key Performance Indicators (KPIs) will be agreed and would have a performance target. For example, for each £500k secured through a GD, a local apprentice would be supported. There would be a financial penalty payable to the Council from CES if targets are not met. This Council can use this money mitigate any target shortfalls.

6.8 Each partner would devise a visible brand, such as “Shropshire Energy Savers” for example. This would be locally promoted by the Council and its partners. The scheme therefore benefits from the support and promotion by the Council as a trusted local service provider. Quality assurance, complaint resolutions and any liabilities associated with the actual Green Deals delivered by CES would be between CES and individual households.

6.9 The BES framework specifies that CES utilise existing networks of small businesses and the local supply chain, rather than bringing in their own direct labour. In order to maximise benefits to the local economy, local KPIs would be established, including:

- the number of GD assessments completed
- value of ECO monies secured
- number of local jobs and apprenticeships created and sustained
- number of people from priority groups assisted to access placements, training and job opportunities
- number of small and medium sized enterprises receiving two or more days of assistance (as defined by European data)

- value of works delivered by companies that pay Shropshire business rates
- number of training weeks per £m invested and spent on the project in the area
- customer satisfaction
- regular accurate, timely reporting in accordance with the terms of the Project Agreement.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information):**

**Key Decision: Yes**

Included within Forward Plan: No

If a Key Decision and not included in the Forward Plan have the General Exception or Special Urgency Procedures been complied with: Yes

**Name and Portfolio of Executive Member responsible for this area of responsibility:**

Cllr Mal. Price (Portfolio Holder Planning, Housing and Commissioning (Central))

**Local Member:**

All

**Appendices:**

CES pre-dialogue proposal

**Declaration of Interest**

- I have no interest to declare in respect of this report

Signed ..... Date .....  
NAME: .....  
PORTFOLIO HOLDER FOR: .....

- I have to declare an interest in respect of this report

Signed ..... Date .....  
NAME: .....  
PORTFOLIO HOLDER FOR: .....

(Note: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter.)

For the reasons set out in the report, I agree the recommendation(s) in the report entitled .....

Signed .....  
Portfolio Holder for .....  
Date .....

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and pro-forma is returned to Democratic Services for processing.

Additional comment : .....  
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Note: If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, Head of Legal and Democratic Services, Chief Executive and the Head of Finance, Governance and Assurance (S151 Officer) and, if there are staffing implications the Head of Human Resources (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Portfolio Holder: Your decision will now be published and communicated to all Members of Council. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication.