

**AGENDA ITEM**

**REPORT TO COUNCIL**

**23 JULY 2014**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**ECO SCHEME**

**SUMMARY**

This report provides an update on the Energy Company Obligation (ECO) scheme and the Council's on-going partnership with Community Energy Solutions (Go Warm) as well as outlining options for the future of the scheme.

**RECOMMENDATIONS**

It is recommended to Cabinet that:-

1. Cabinet notes the progress of both the CESP and the continued ECO schemes and the changing nature of the ECO scheme from 1 April 2014 as a result of government policy proposals.
2. Cabinet notes the revised carbon pricing and the implications of the reduced carbon price on the ECO scheme.
3. Cabinet agree the use of the remaining £300,000 resource to support the on-going delivery of the programme to complete the wards of Parkfield & Oxbridge, Newtown and Mandale & Victoria.
4. Cabinet agree the use of £250,000 of Public Health resource to support the on-going delivery of the programme to complete the wards of Parkfield & Oxbridge, Newtown and Mandale & Victoria.

It is recommended to Council that:-

5. Cabinet provide a recommendation to full Council for the release of £390,000 resources from Council's balances to support the on-going delivery of the programme to complete the wards of Parkfield & Oxbridge, Newtown and Mandale & Victoria.

**DETAIL**

1. Community Energy Solutions (Go Warm) has been working in partnership with the Council since 2007 and in 2012/13 delivered the largest private sector Community Energy Savings Programme (CESP) in the UK with 1525 households receiving measures, including 1205 External Wall Insulation (EWI) and 310 boilers/new heating systems. This project was used as a case study in the Department for Energy and Climate Change (DECC) national evaluation of CESP and an independent study (by consultant NEMS) was also commissioned by SBC to assess the wider benefits of the scheme.

2. In the 15 months to December 2012, Stockton CESP schemes delivered 280,000 tonnes of carbon savings, created 500 jobs and brought in £12m of private sector investment. The outcomes were wider than this in terms of area regeneration, reducing fuel poverty, reduced fear of crime, reduced tolerance of anti – social behaviour and environmental crime and improvements in educational opportunities. This was delivered for the relatively small cost to SBC of £700k over the life of CESP. The proportion of cost to these positive outputs was rare, one of only a few such fuel poverty schemes in the UK.
3. In early 2013 both CESP and the Carbon Emissions Reduction Target (CERT) were replaced by an energy efficiency programme called the Energy Companies Obligation (ECO). The new programme was eagerly anticipated based on proven outputs of CESP and, during the period of transition, a programme was agreed to deliver solid wall insulation to a further 5,000 houses in the Borough by the end of 2015 (extended now till 2017 in line with ECO programme) with the total value of £20M of external investment. From April 2013, Go Warm continued to deliver EWI and heating measures in Stockton, however, there were complexities and uncertainties associated with the ECO scheme and Go Warm (CES) continued to work with EON (the partner Energy Company for the Stockton scheme) to address these. The main issue faced has been the reduced carbon values being generated by the ECO model (compared to identical work under CESP) and work only continued because Go Warm was able to underwrite these reduced values. To date, Go Warm has provided over £2.2m from reserves for this project with further infrastructure support from SBC.
4. Work was hampered by an ongoing dispute with BT over installations but began to pick up in pace towards the end of 2013 with a further 563 new boilers installed and almost 1300 more properties receiving EWI to date, representing £7.4m of installer costs funded by £5.2m ECO.

### **Changing Policy**

5. In December 2013 the Government announced a need to reduce fuel bills by “rolling back on green taxes”. This translated into a rapid response from the “big six” energy companies who seized the opportunity to persuade the Government to dilute ECO targets and extend the timescales. The impact was felt immediately in many schemes, for example, the Warm Up North project with its partner British Gas saw a dramatic slow down in the programme. Fortunately EON, the principal funder for the Stockton project, gave an assurance that the carbon price per tonne would remain the same at £94.56/tonne until March 2014, at which time a follow on contract was anticipated. .
6. On 5<sup>th</sup> March 2014 the Government issued new proposals for ECO and Green Deal for consultation with a timescale for response by 16<sup>th</sup> April 2014. Key proposals include the extension of the scheme to 2017, changing the eligibility criteria for Carbon Saving Communities Obligation (CSCO) and allowable primary measures under the Carbon Emissions Reduction Obligation (CERO) to reduce delivery costs and also to reduce the 2015 CERO obligation by 33%. With 65 questions to answer and a policy decision to reduce the green target, it is clear that there will be little change from their stated intent. Clearly, reducing green targets will equate to depressed prices per tonne of carbon saved for the energy supply companies in the short term. That means high cost measures such as EWI will not achieve 100% funding through ECO. This is further strengthened by the fact that cavities and loft insulation are being introduced from 1<sup>st</sup> of April as primary measures meaning energy companies can focus on these cheaper, quicker alternative measures instead of the more effective EWI measures.
7. Within the consultation it set out a target of EWI being applied to 100,000 properties which, with the extended potential to deliver this programme, means only 25,000 per year. Only 19,766 measures had been delivered up to 31<sup>st</sup> December 2013. The Government’s policy is now clearly set out in terms of the intention that such measures will only be delivered

where there is a contribution from recipients. There is a stated aim to have a blend of ECO and Green Deal, requiring the householder to at least part finance the measure.

8. The uncertainties arising from the ECO scheme and subsequent consultation of further changes has resulted in extremely challenging times for Go Warm as a business. SBC have recently provided a short term loan to support the immediate cash flow requirements of the company. However this was predicated on developing a strategy to take the business forward, albeit in a different shape and a modified business plan. Several interventions have been proposed by management in response to this and some have started to be implemented.
- **Cutting Costs** - Overheads for the business are to be reduced through the restructuring of CES. A 40% reduction in staff and the potential closure of two of the current three offices will deliver 31% reduction in fixed costs (£525k per year).
  - **Retrospective claim for Carbon from EON** - ECO is based on carbon savings as calculated by Energy Performance Certificate's (EPC's). The methodology of EPCs has stabilised and is being applied retrospectively to properties already funded by EON. Based on claiming revised carbon savings for 642 properties, over 6,000 tonnes of carbon will be realised valued at £587k. This will take approximately 30 days to complete with the funds expected to be drawn down by the end of May.
  - **Cavity and Loft Insulation** - As new primary measures from 1st April 2014, cavity and loft insulation can be re-introduced by Go Warm. It should be recognised that in Stockton, many cavities and lofts were filled during the earlier Warm Zones initiative. With help from SBC however, Go Warm would propose a targeted marketing campaign that would aim to secure at least 50 cavities and 50 lofts per month, with around 300 properties being treated over the next 6 months. It should be noted that a significant amount of surveying work has already been carried out to ensure that there is a pipeline of work lined up.
9. Between April and June 2014, discussions took place between Go Warm and EON with regard to a follow on contract and, more crucially, the price per tonne of carbon that would be included for measures, particularly EWI. EON and Go Warm have now reached agreement on a figure that is acceptable to both parties. It will see EON become directly involved in the project though a management role. However, this agreed price will not cover the entire cost of the scheme and, despite business stream-lining work undertaken by Go Warm to reduce costs, there is now a budget gap which would vary depending on the property.

### Scenarios Going Forward

10. There are clear benefits to continue with schemes of this nature, particularly in the most deprived areas of the Borough. Therefore various options to progress this work have been considered, in order to complete the areas originally planned as part of the ECO process, namely; Parkfield & Oxbridge, Newtown and Mandale & Victoria. To complete this work under the revised carbon pricing would require investment of approximately £940,000 to cover the budget gap. This equates to around 26% of the overall scheme cost which compares to around 10% contribution for the CESP scheme. .
11. At present it is anticipated that any funding provided by SBC is done so to allow the scheme to progress to June 2015 by which time it is expected that Government policy will be clear, the new Go Warm (CES) business model will be fully established and EON will have potentially reviewed their pricing policy. The key date will be the announcement in October of the outcome of the consultation on the government's proposals and any new regulations that may be published by Ofgem

12. There is already funding allocated to the project with £300,000 remaining and it is proposed to use this to support the on-going delivery of the project. There is also £250,000 of funding available from Public Health to support the scheme. This would leave approximately £390,000 to allow the scheme to progress in the three wards originally planned – this will be around 850 properties. It is important to note that this money would not be immediately passed to Go Warm (CES) but instead would be provided on a street by street basis once actual costs (and benefits) are known.
13. The effects of cold weather and cold homes on health are well documented. The Cold Weather Plan for England (published by Public Health England in 2013) states;  
  
“The impact of cold weather on health is predictable and mostly preventable. Direct effects of winter weather include an increase in the incidence of heart attacks, respiratory disease, influenza, falls and injuries and hypothermia. Indirect effects of cold include mental health illnesses such as depression, and carbon monoxide poisoning from poorly maintained or ventilated boilers, cooking and heating appliances and heating”.  
  
In the foreword to the report the Chief Medical Officer urges public health actions to support vulnerable people who have health, housing or economic circumstances that increase their risk to harm. The previous Chief Medical Officer wrote in 2009 that “the effects of cold weather are most felt by vulnerable groups such as older people, the chronically ill, children, those with mental health problems and people with disabilities.”  
  
There is therefore a strong public health case to invest in this scheme which will bring warmer housing to residents of the coldest houses in the Borough, many of whom are vulnerable to the effects of being cold.
14. Whilst these contributions can be seen as assisting an energy company achieve its carbon targets the added value of improved health, reduced fuel poverty etc could be seen as a valid investment for the Authority to make. In order to try to maintain the initiative, Officers will work with CES to maintain a viable project going forward and highlight the Council’s commitment to ensuring that, wherever possible, a scheme to reduce fuel poverty, improve health and achieve the wider regeneration benefits will be secured.
15. On 1 May 2014 the government announced a new Green Deal Home Improvement Fund (GDHIF) which will replace the Green Deal Cashback fund. This offers householders, tenants and landlords the opportunity to apply for up to 75% of the cost of EWI up to a maximum of £6,000 meaning they have to pay a contribution of at least 25% towards the cost of installation.
16. There is no guarantee that there will be any change to Government policy or the price per tonne of carbon saved paid by EON to Go Warm and we therefore need to plan an exit strategy using the available resources whilst still keeping the door open to other opportunities as they present.
17. On this basis an exit strategy will be developed with Go Warm that makes use of the funding outlined above to deliver measures to streets in the three wards and provide enough work for Go Warm until June 2015. At that point unless other funding is secured, or the price/tonne of carbon has significantly improved, the project will end.
18. Cabinet will consider the report at its meeting to be held on 17th July 2014 and a copy of the relevant minute extract will follow that meeting.

## **FINANCIAL IMPLICATIONS**

19. Current funding assigned to the ECO project of approximately £300,000 is proposed to be used to directly fund further EWI work as opposed to ancillary works alone. A further

£250,000 is to be provided to the scheme from Public Health resources leaving £390,000 required to be approved by Council. It should be noted that the short term loan provided to Go Warm recently was due to be repaid in full by June 2014.

## **LEGAL IMPLICATIONS**

20. There is a legal agreement in place for the short-term loan that was provided to Go Warm in March 2014.

## **RISK ASSESSMENT**

21. The ECO scheme is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## **SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS**

22. The ECO scheme contributes to a number of strategic objectives that include tackling climate change, reducing family and fuel poverty, securing employment, regeneration of lower super output areas and improving the Borough housing stock.

## **EQUALITIES IMPACT ASSESSMENT**

23. This report is not subject to an Equality Impact Assessment because the report is concerned with changes to a current project that is delivered and managed by a third party.

## **CONSULTATION INCLUDING WARD/COUNCILLORS**

To date consultation has been restricted to the Leader, Deputy Leader and Cabinet Member.

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Education related?

No

Background Paper

Report to Cabinet 16 May 2013: Green Deal Energy Company Obligation

Ward(s) and Ward Councillors:

All

Property

N/A