

Title of meeting:	Cabinet Member for Environment Cabinet Member for Housing
Date of meeting:	4 th July 2012 and 10 th July 2012.
Subject:	Energy Act 2011 – The ‘Green Deal’.
Report by:	Alan Cufley Head of Community Housing and Regeneration
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes/No

1. Purpose of report

- 1.1 To provide Members with the latest information with regard to the Government’s energy efficiency initiative, the ‘Green Deal’ and to recommend how Portsmouth City Council can help residents receive the right support and information as the Green Deal is introduced to the private housing market.

2 Recommendations

That the Cabinet Member for Environment:

- 2.1 Endorses the recommendations to provide support and advice to residents on both the benefits and the liabilities / risks of the Green Deal scheme, and

That the Cabinet Member for Housing:

- 2.2 confirms that, Council officers should progress with talks with other authorities in Hampshire to ensure that city residents understand the benefits as well as the risks associated with Green Deal and that, if they go forward with the scheme, they may receive the most cost effective service and the most appropriate benefits available.
- 2.3 agrees that, officers continue to work towards an effective business model that will enable local businesses to access the Green Deal funding.
- 2.4 confirms that, Portsmouth City Council should pursue Option 4, as described in the report, to actively seek partners to install the cost saving measures in homes within the city and enable the partner to seek the finance to undertake these works.
- 2.5 approves the recruitment of a city council Green Deal assessor
- 2.6 approves the setting of an assessment figure at £150.00.

3 Background

- 3.1 The Green Deal is the proposed solution of Government to the current lack of investment in energy saving measures in homes and non-domestic buildings, resulting in many properties achieving only poor energy efficiency ratings. The Green Deal aims to provide the finance necessary to fund fixed improvements to the energy efficiency of domestic and non-domestic properties, which will provide savings for the energy bill payer (and future bill payers).
- 3.2 The Green Deal includes a financial framework that enables energy saving measures to be paid for by instalments via energy bills. The core principle is “The Golden Rule”, meaning that the instalment payment for the energy saving measures should not exceed the projected associated cost savings on an average bill for the duration of the Green Deal Finance arrangement, which could be for as long as 25 years.
- 3.3 The domestic Green Deal model will be supplemented by a new Energy Company Obligation from the end of 2012, which draws on the strengths of the existing energy company obligation but also avoids some of its limitations. The new obligation will underpin the Green Deal and focus particularly on those householders (e.g. the poorest and most vulnerable) and those types of domestic property (e.g. the hard to treat) which cannot achieve financial savings without a measure of additional support on top of the Green Deal finance.
- 3.4 It should be noted, that the customer should not have to find any additional funds to pay towards installation measures under the “Golden Rule” principle. The saving made by reduced consumption of energy should offset the amount payable for the measures, if the customers use energy responsibly within the home.
- 3.5 This means that if a homeowner currently pays £100 per month for their energy usage, then following the retrofitting of the measures, they will pay the same or less each month, using the same method of payment they currently use to their energy supplier.

4 The City of Portsmouth and the Green Deal uptake.

- 4.1 Portsmouth differs from the rest of Hampshire as it contains a significantly high proportion of homes build before 1919, with more recently built homes (post 1964) accounting for only about 21% of the overall stock.
- 4.2 By reviewing current statistical information held on homes in Portsmouth and taking into account the acceptance of other incentives to help homeowners to reduce their energy bills, it is felt that around 7,000 properties could be made more energy efficient within the Portsmouth area through the Green Deal scheme. This means that around 9% of the overall stock could attract Green Deal funding.

- 4.3 Officers are currently in talks with other local authorities in Hampshire to explore if either a PUSH or full Hampshire wide Green Deal delivery model would be a more viable option for all residents. These talks are in their early stages but will provide an understanding as to whether having a wider geographic market would provide a better approach for residents in Portsmouth.

5 The Impact of Green Deal on residents

- 5.1 The supply and installation costs of the Green Deal measures, identified and approved by the (PCC appointed) Green Deal Assessor, are repayable over a period not exceeding the lifetime of the improvements. This cost takes the form of an interest-bearing loan that remains with the property until fully repaid. The Green Deal work loan repayments will be shown as a separate line on the residents energy bills and will be payable to the energy provider. The Golden Rule states that the monthly loan repayments will not exceed the energy savings received, as demonstrated in the illustration below:

Before Green Deal Improvements		After Green Deal Improvements	
<u>Monthly Bill</u>		<u>Monthly Bill</u>	
Energy Consumption	£80	Energy Consumption	£60
		Green Deal Repayment	£20
Total Due	£80	Total Due	£80

- 5.2 It is important to recognise that not every household will meet the Golden Rule indicated above. The loan repayments required to cover the cost of works may exceed the likely savings. In such circumstances, the resident must sign to agree that they still want the works undertaken, and this would need to be pointed out at the outset, by the Green Deal Assessor.
- 5.3 The table below shows the minimum monthly energy savings needed to meet the Golden Rule and repay the loan per £2,000, £5,000 and £7,000 of Green Deal works, based on an indicative interest rate of 7%.

	Green Deal Works Total £2,000		Green Deal Works Total £5,000		Green Deal Works Total £7,000	
Term of Loan	Minimum monthly energy saving needed to meet Golden Rule / Repay Loan	Total Payable (including interest)	Minimum monthly energy saving needed to meet Golden Rule / Repay Loan	Total Payable (including interest)	Minimum monthly energy saving needed to meet Golden Rule / Repay Loan	Total Payable (including interest)
5 years	£39.60	£2,376	£99.01	£5,941	£138.61	£8,317
10 years	£23.22	£2,786	£58.05	£6,966	£81.28	£9,754
15 years	£17.98	£3,236	£44.94	£8,089	£62.92	£11,326
20 years	£15.51	£3,722	£38.76	£9,302	£54.27	£13,025
25 years	£14.14	£4,242	£35.34	£10,602	£49.47	£14,841

- 5.4 The table above suggests that the shaded scenarios are less likely to meet the Golden Rule given the level of energy savings that would be needed to repay the cost of the Green Deal works.
- 5.5 It should also be noted that according to the latest statement from Government, the GD provider would be permitted to add up to 2% pa to the cost of the works for inflation. Whilst this cost will be identified up front in the loan agreement, it will be on top of any other rises in fuel costs charged by the resident's energy supplier.
- 5.6 It is important that residents are made aware of the financial commitment they are making. It also needs to be pointed out that due to the debt being placed on the property rather than the resident, it may affect the desirability of the property if it is up for sale, i.e. the purchaser may not wish to take on the remaining Green Deal loan repayments. This will result in the seller either not selling, or needing to repay the outstanding balance from the sale proceeds.
- 5.7 However, in contrast, the fact that the energy efficiency works have already been undertaken and that much of the original debt will already have been repaid, may also be seen as a positive selling point in the mind of other purchasers.

6 Energy Company Obligation (ECO) - Affordable Warmth target

- 6.1 In addition to the other two obligations placed on Energy Companies by the new ECO, designed to complement the Green Deal (Carbon Saving obligation and Carbon Saving Communities obligation), the Government will introduce an Affordable Warmth obligation targeted at low income and vulnerable households in the private sector.

- 6.1 This obligation will focus on measures such as loft insulation, cavity wall insulation and heating systems. It will be available to private housing residents who are eligible through their receipt of certain qualifying benefits. These include income related employment and support allowance, income based JSA, income support, state pension credit,
- 6.2 This obligation provides 100% subsidy of the cost of the works assessed, but the property will be subject to the Golden Rule requirements

7 Reasons for recommendations

- 7.1 The local authority can recognise the introduction of the Green Deal in a number of ways. With the Government intending to introduce the Green Deal on a national scale in October 2012, it is imperative that the authority is given for officers to take the necessary action depending on the option selected.

Based on advice from the Department for Energy and Climate Change (DECC), the options available are:

Option 1 - Do nothing

- 7.2 The DECC has stated that the delivery of the Green Deal will be mostly market lead, however, they have stated that local authorities **must** play some part in helping companies access homes within their area, by either providing data or information to the public.
- 7.3 Although at zero cost to Portsmouth City Council, this option should not be considered as this will not meet the requirements that have been set for local authorities to have some input into helping customers understand the green deal as set by DECC and would place our customers at a disadvantage.

Option 2 - Provider – Portsmouth City Council

- 7.4 To provide the Green Deal directly to our customers through coordination of the finance and delivery. Acting this way would provide a known reference point using the Portsmouth City Council branding for our residents, but will require a large amount of time and investment to set ourselves up to properly deliver the full Green Deal concept to our customers.
- 7.5 To deliver a successful scheme we would need to undertake a number of activities, which for a local authority are not within our normal remit such as:
- Managing supply chain
 - Development of commercial business systems.
 - Procurement of licensed installers and managing them.
 - Securing external finance and managing a large number of loans over a long period, with small monthly repayment from a third party.
 - Providing financial advice as required under the Consumer Credit Act.

As a provider, Portsmouth City Council would play a central role in delivering the scheme including,

- Set up cost for the business model that has been calculated to be at least £1 million.
- Marketing; DECC have stated that they would not be looking to undertake a large national advertising campaign to promote the Green Deal and it will be left to local providers to undertake this.
- DECC have announced that some £200 million will be made available for providers, but it is still unclear how or when bids can be made for this funding. This funding will be available for incentives to home owners only.
- Capital borrowing; A full financial appraisal has been undertaken and a surplus can be achieved if the bad debt provision stands at 2%. However, if this rises to just 3%, then the project would make a significant loss over the 25 years.
- However, there are numerous risks associated with this model, these include:
 - initial set up costs,
 - reduced anticipated take up of the Green Deal,
 - possible change in legislation during the next 5 months,
 - possible change of government plans over the coming years,
 - high bad debt provision,
 - residents placed in a vulnerable position if energy costs rise further than anticipated,
 - the aftermarket care does not fully educate the customer in reducing their own energy usage,
 - Competition within the open market too great for the city council to compete.
 - There are significant budgetary and resource implications and due to the uncertainties of the overall green deal project, it would be a high-risk commitment for Portsmouth City Council to undertake.
- The financial appraisal model indicates that the Council would have to charge an interest rate of 7% to break even. A number of new Green Deal banks have been set up, which could be offering finance at a very competitive rate of about 6%.

- It is felt that this is not the right approach for Portsmouth City Council to take.

Option 3 - Procurement of a Green Deal Provider – Financed by Portsmouth City Council.

- 7.7 A competitive dialogue process would identify a single private sector delivery partner to deliver the scheme. This would remove some of the unknowns for the Council by not being a full provider in its own rights.
- 7.8 The appointed delivery partner would manage the delivery of the Green Deal to homes (Private and Social) or businesses and the Council would provide the financing for the scheme.
- 7.9 The provision of the type of scheme is very much in line with the Birmingham model and one which has been copied by a number of large local authority consortiums in the North East and some London authorities are now reviewing the model.
- 7.10 The Council would be at risk if the customer defaults on the repayment of the loan or only part pays their energy bill. In normal circumstances, the energy companies could install a pre pay meter, which would include the Green Deal financing and alleviate the risk of this scenario.
- 7.11 Ultimately, if no payment is made or the person vacates the property, no payments would be made until a new bill payer is found. This again does leave the Council at risk of bad debt.
- 7.12 As the marketing and promotion is part of the contract with the delivery partner, there would be less income to the Council should the take up be less than anticipated.
- 7.13 This would be a complex procurement activity, as the life of the contract would have to match the life expectancy of the measures installed. However, a larger number of providers are already available in the market for the Council to speak with and as more information has been forthcoming from DECC these providers will be in a better position to move quickly with this type of joint working venture.
- 7.14 The financial appraisal has indicated that if the bad debt rose above 9% then the Council would make a loss.
- 7.15 However, there are numerous risks associated with this model, these include:
- The business model would have to continue at a continual rate for 25 years.
 - There are significant budgetary and resource implications and due to the uncertainties of the overall green deal project, it would be a high-risk commitment for Portsmouth City Council to undertake.

- The take up by homeowners could be less than anticipated and this would result in a loss for the city council.
- Using this model, Portsmouth on its own could be too small a catchment area for ensure the scheme runs at zero cost, due to the ongoing financial commitment required.

Option 4 - Partner: Appendix 1 provides further information on this model.

7.16 To work in a partnership with local Green Deal providers, who have been selected by use of the procurement process, to deliver the installation and the finance required. All other involvement to ensure the green deal thrives in Portsmouth would be undertaken by Portsmouth City Council.

- The **Council would directly employ green deal assessors** who have attained the quality mark as required by the legislation to undertake the assessments within our customers' homes, to provide a full impartial service.
- To enable the work to be undertaken the Council can charge the provider for producing the assessment and providing leads for them. The financial appraisal model has shown that Portsmouth would break even if we undertook these at £90.00. However, it is still uncertain what the market figure for the assessments will be, however the financial model does allow a large amount of flexibility.
- However, it is felt that by charging a fee of £150.00 for this service any surplus income could be used for other projects within the city in relation to sustainability, energy usage and helping vulnerable persons to live in safe, secure and warm homes.
- There would still be no upfront costs to the customer as required by the Green Deal scheme and the funding for the assessment would be charged to the appropriate provider.
- If they decide not to undertake the works, Customers may be charged, even though they meet the Golden Rule requirements.
- No customer would be charged, if they did not meet the Golden Rule requirements.
- The start-up costs are low and the majority of the service requirements can be undertaken in house from within the current level of administration available to Private Sector Housing.

- Employment of Green Deal assessor(s) would be done on a fixed term contract basis, which would reduce the risk to the Council should the Green Deal assessment figure be lower than predicted.
- This option provides an integrated service with aftercare installation monitoring available from the city council and enable our residents to be more in charge their own energy usage to ensure that the golden rule savings should be maintained.
- A working partnership with at least 4 providers in Portsmouth would be a relatively easy process to manage, taking into account the contract figures and full use of the internal procurement process. This would enable the city council to obtain the best deal possible for residents and set a number of local criteria on those partner providers, such as working with local SME businesses only and having as local supply chain.
- It would be beneficial to the local economy to create a direct partnership with local installers and from informal discussions with a number of the providers, this is something they would be willing to undertake.
- There is limited risk to Portsmouth City Council, if the uptake of the Green Deal is not as great as anticipated.
- An initial targeted campaign for social housing and private rented sector, would see the scheme moving forward within the first year.
- The majority of the administration requirement is already established within Portsmouth City Council and therefore set up costs will be minimal.
- Overall, this would provide a good service for our customers and is the **recommended choice**.

Option 5 - Promote:

7.17 To act as advocates for the Green Deal for all our customers.

- Minimal input from Portsmouth which could be done quickly and with a communications campaign using the PCC website, Flagship magazine and other direct communication to our customers.
- This option would require an estimated additional ongoing cost of £24,000 per year.
- Whilst complying with DECC's requirements, our customers could find that they have trouble accessing the green deal at the right costs, with the right advice and monitoring.

8 General Concerns

- 8.1 In addition to the financial impact described above in paragraph 5, there are some more general concerns which are described below;
- 8.2 Currently there are still 22 pieces of legislation/regulation to be approved by Parliament before the anticipated launch in October 2012.
- 8.3 The training programme for the Green Deal assessors has been finalised, and have been accredited, but we are unsure of the take up of these course due to uncertainty which occurred with the EPC training program.
- 8.4 The quality mark required for installers has still to be set.
- 8.5 This is a Government flagship initiative and legislation could change which could be to the detriment of the Council.
- 8.6 With the UK economy unsettled, a large number of homeowners may not wish to have further debts placed upon them and the main role of the Green Deal to reduce energy bills and cut CO² will fail.
- 8.7 Over time, we could see that having a Green Deal debt on your home may reduce the ability for the property to be sold and could lead to further debt being amassed by homeowners in order to sell their properties.
- 8.8 It could be that this would need to be Council lead, with the involvement of the private rented sector before we see a major homeowner interest.
- 8.9 There are concerns that companies could use the Green Deal as a means to sell other services to homeowners, but the Government has responded to some of the concerns relating to this in the consultation response.
- 8.10 Although the “Golden Rule” should not see any increase to the monthly cost of the homeowners’ current energy bill, the savings made cannot be guaranteed for more than a year, due to possible major increases in the cost of energy on the global market.

9 Consultation Response by Government.

- 9.1 Portsmouth City Council did respond to all the questions asked in the Governments consultation document and they have reviewed all the responses and have alleviated a number of our concerns:
- Cold Calling – In addition to the formal code of practice, Green Deal provider must respect no cold call requests, either face to face, by phone, electronic or if “No Cold Call” stickers are displayed. If a cold call is made, then a Green Deal assessment cannot be made within one day of the cold call. All other statutory rights, such as the seven-day cooling off period still stand.

- Green Deal Assessors have to provide declarations to homeowners identifying their status (Independent or tied to a single provider) and what fee they will be paid to undertake the assessment. This must also include any commission they may be awarded.
- If as part of their assessment visit to the property they may offer additional service to the customer, they must obtain written consent prior to this visit being made from the homeowner.
- The calculation used to identify the amount of savings made, must use saving figures on how they will perform in situ rather than measured.
- The interest charged as part of the credit agreement will be a fixed rate one, set for the term of the agreement, but it has been allowed that Green Deal Providers can increase the whole charge by 2% a year, in line with the Bank of England inflation target.
- A Green Deal Ombudsman has been engaged to provide a robust complaint and investigation service and Gemserv will be responsible for the registration of assessors, installers, providers and to monitor these companies in line with the applicable codes of practice.
- The 30-day period of redress if a new homeowner or tenant has not been informed that a Green Deal change has been placed on the property from the date they receive their first bill has been increased to 90 days.
- A number of additional measures have been included and further information can be found within appendix 2.

10 Local Authority Housing Management properties.

- 10.1 Local Authority Housing Management (LAHM) can access some of the Green Deal funding known as Energy Company Obligation (ECO). ECO funding is provided by the Energy Companies for properties, that meet the Green Deal “Golden Rule”, but due to the cost of the insulation, the savings are not enough to allow the funding to be within the Green Deal financial terms.
- 10.2 We have a number of properties that could access this type of funding, which would reduce the fuel costs to our tenants.
- 10.3 It is our intention to seek ECO funding if appropriate, to deal with the hard to treat properties, but Housing Management will undertake any other measures identified within the Green Deal report.
- 10.4 If a tenant wishes, and can access some Green Deal funding for micro generation (Solar thermal or Solar PV), we will look at each case on an individual bases before deciding upon the best course of action.

11 Carbon Reduction, cost saving and employment.

- 11.1 Taking into account the projected installations of energy saving measures in 7,000 properties over a five-year period and that the average installation cost set at £5,000 for the average home in Portsmouth.
- 11.2 It is anticipated that this could generate £35,000,000 investment into the city's housing stock, with residents directly saving £5,100,000 on energy costs.
- 11.3 CO² savings within the city due to the investment have been calculated at 29400 tonnes over 5 years.
- 11.4 It is anticipated that £12,000,000 of external funding would be invested into the housing stock, through the ECO and ECO Affordable warmth scheme.
- 11.5 The scheme could generate a number of direct and indirect employment opportunities, which could help in stimulating economic regeneration within the city.
- 11.6 Any surplus income could be used to provide financial support to facilitate the city council's home-safety related services to vulnerable residents.

12 Equality Impact Assessment (EIA)

- 12.1 A preliminary EIA has been undertaken. However, a full EIA could be required once Department of Energy and Climate Change have provided further information about the Green Deal.

13 Head of Legal, Licensing & Registrars' comments

- 13.1 The comments of the Head of Legal, Licensing and Registrars are incorporated into the body of this report.

14 Head of Financial Services's comments

- 14.1 The recommendations within this report aim to introduce the Green Deal to the private housing market in the best way for the City's residents, whilst ensuring that financial risks are kept to a minimum. Of the options proposed, option 4 is the recommended option as it not only meets the requirements of the DECC, but also represents the best value for money, as any anticipated cost of delivery is expected to be recovered through the proposed assessment charge of £150.

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Signed by:

Alan Cufley Head of Community Housing & Regeneration

Appendices:

Appendix 1 Portsmouth as a partner with a provider, but not providing the capital.
Appendix 2 Measures that can be installed under the Green Deal.

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Energy Act 2011	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by:

Councillor Steven Wylie, Cabinet Member for Housing

