

Cabinet

13 March 2013

Warm Up North; Arrangements and Governance



Key Decision R&ED/06/13

Report of Corporate Management Team

Ian Thompson, Corporate Director Regeneration and Economic Development

Councillor Neil Foster, Portfolio Holder for Economic Regeneration

Purpose of the Report

1. To inform Members on progress of the Government's Green Deal Programme and the development of a regional initiative, 'Warm Up North', which will be available for all residents to reduce energy consumption and which will also provide focused training and social benefits within County Durham.

Background

2. The Energy Act 2011 introduced the Green Deal and Energy Company Obligation. Green Deal was launched on 28 January 2013 and is the first scheme in the world to offer 'pay as you save' options for home energy efficiency improvements, in contrast to earlier grants such as Carbon Emission Reduction Target (CERT), Community Energy Savings Programme (CESP) and Warm Front subsidy schemes.
3. In total 45 measures are approved that can be installed at no up-front cost and paid back over an agreed period through energy savings via the electricity bills for the property. Green Deal requires loan repayments to be less than the resulting financial savings (this is known as the "Golden Rule") to help reduce energy bills. Alongside this loan, a new Energy Company Obligation (ECO) is also being introduced whereby energy companies will be required to make grant funding available for energy efficiency measures on hard to treat homes and provide grants for low income households in more deprived areas. This will have a significant impact on reducing fuel poverty.
4. Green Deal is available to domestic and non-domestic buildings, including public buildings. Due to the ECO subsidy it is especially appropriate for 'hard to treat' properties, especially those with solid walls, which form a significant proportion of housing stock in County Durham. Green Deal requires that improvements will be identified by accredited assessors and carried out by accredited installers.

5. Warm Up North is a regional response to this new opportunity ensuring that we are in a position to maximise the funding quickly for the benefit of our residents to reduce energy consumption in what will be an uncertain and possibly complicated market going forward.

Warm Up North

6. The Warm Up North initiative is a regional Green Deal Partnership with Newcastle City Council, Durham County Council, Darlington, Northumberland, Sunderland and South Tyneside Councils. Eleven Councils in the North East have the potential to join at any stage and are named as part of the procurement process.
7. The Partnership has four objectives:
 - To promote social wellbeing in the North East, by lowering the levels and impact of fuel poverty and contributing to public health;
 - To promote economic wellbeing in the North East and promote the green economy by safeguarding and creating employment, skills and the economic capacity of the area;
 - To improve the energy efficiency of domestic properties and publicly owned non-domestic properties across the North East;
 - To reduce carbon dioxide emissions from domestic and publicly owned non-domestic properties across the North East.
8. The Warm Up North Partnership is undertaking a procurement exercise to identify a single preferred Green Deal Delivery Partner to lead on assessing, providing and installing up to £200m worth of ECO and Green Deal approved measures to at least 15,000 homes across the North East. The project will run for a period of five years with an option to extend the programme for three further years. EU funding has been identified to support the procurement process and a team of relevant officers from each Partner Authority have been working on the finance, legal, procurement and technical aspects of the initiative. Partner authorities have been asked to make a contribution of £50,000 towards the procurement costs.
9. A short list of three bidders has now been identified and a competitive dialogue process will take place during the early months of 2013 to select a single preferred bidder, with the contract to begin in August 2013. The selection criteria looks at a range of factors including value for money and reducing costs, delivering behavioral change alongside installations; protecting customers through proper marketing and information; ensuring excellent customer service and leverage of jobs and impacts on the local economy. The three remaining bidders are:
 - a. British Gas;
 - b. Keepmoat, EDF Energy and Gentoo;
 - c. RWE nPower plc / Waites Construction Ltd.

10. The procurement process is as follows:
 - Closure of dialogue with all Bidders – 12 April 2013
 - Invitation to Tender – 15 April 2013
 - Return of Tenders – 6 May 2013
 - End of standstill period (Alcatel) and final award – July 2013
11. It is proposed that Newcastle City Council will enter into a main 'Contract' with the Preferred Bidder and the Partner Authorities will enter into a simultaneous 'Inter Authority Agreement' that will set out each authorities relative position established in the main contract.
12. Over the last few months more certainty has come from Central Government on how the scheme will work and where the money will come from to fund the efficiency measure 'up front'. This will now inform the bidders but also assist councils in understanding the opportunities going forward. The Government's intention is that the Green Investment Bank, through a newly created Green Deal Finance Company (GDFC), will provide longer term financing arrangements for Green Deal. Initially it was thought that councils may need to identify funding to make the scheme viable, however recent confirmation that European Union (EU) State Aid clearance has been received removes the last remaining doubt in respect of funding being available.
13. It should be noted that the Region has been at the forefront of this work alongside Birmingham in ensuring that the Government's aims for Green Deal are now considered deliverable. It is also of note that many other regions are now following this model and have started similar procurement processes.
14. In terms of the Council's obligations within this proposal, the advantage to bidders is the trust which comes with local authority support. Therefore the Council will be providing a 5 year exclusivity deal in terms of our support for the winning bidder, alongside any information that we may have in respect of energy efficiency of homes that will help target our most hard to treat and inefficient homes. In County Durham there are estimated to be 36,500 'hard to treat' domestic properties with a large number of the remaining homes still able to benefit from improvements.
15. The Council's financial contribution towards the project is £50,000 relating to the costs of the procurement process. On the basis that the GDFC will be the source of financing for the programme of works, it is not anticipated that Partner Authorities (including Durham County Council) will need to provide capital funding through prudential borrowing to finance delivery of the works. If this situation changes then a further report will be brought to Cabinet.
16. Appendix 2 outlines the mode of operation of the GDFC and how it will benefit the programme and significantly minimise risk to the partners.

Demonstration Projects

17. The Department of Energy and Climate Change (DECC) recently announced that it has awarded £1.25 million through its Fuel Poverty funding to the Warm Up North Partnership to make an early start to the retrofit work across the region. Seven schemes in five partner areas will benefit, with the work being completed by March 2013.

These pilot projects are designed to:

- Lay the foundations for Warm Up North's Green Deal offer
 - Test key aspects of the Green Deal such as assessments and working with supply chain partners
 - Test different communication approaches and messages with customers
 - Support local jobs, skills and training
 - Install energy efficiency measures and create exemplar Green Deal properties.
18. In County Durham the demonstration project will install innovative high design quality external wall insulation measures in 35 properties as part of the Craghead regeneration scheme drawing down £309,000 of DECC funding and £175,000 of matched funding from British Gas. An additional £120,000 has just been received from DECC to install energy efficient central heating measures in Easington Colliery and Craghead.
 19. This work provides both confidence to DECC and potential bidders of our commitment but also is a demonstration to other residents around the County of the opportunities which will be available through this partnership.

The Way Forward

20. Warm Up North offers opportunities to undertake wide scale energy efficiency improvements in private, private rented and social housing stock across the County at no up-front cost. It may also prove appropriate for treating the Council's portfolio of public buildings, including schools, although we will have the flexibility of considering different forms of finance when considering our own stock. The County's involvement in Warm Up North has also enabled us to benefit from the additional DECC funding that has not been available to other areas of the country. The project continues to be at the forefront of the Government's Green Deal proposals and therefore will continue to benefit from opportunities as it is one of only two large scale projects currently being developed nationally, Birmingham being the other one.
21. The scale of investment should provide approximately 1500 training opportunities and will also enable utility ECO funding to be maximised in the region of around £30m that will not be possible without the scale of opportunity provided by the partnership. It will also allow Councils to focus on geographic areas of need and provide cost efficiencies which will be passed onto residents.

22. There are significant additional benefits in terms of potential to develop the local green economy, in keeping with the ambitions of the LEP, tackling the social priority of fuel poverty in low income households and meeting carbon reduction obligations that the Council is committed to achieve as a signatory to the European Covenant of Mayors.
23. The alternative to engaging in Warm Up North would be either a local Durham approach, which would reduce the outcomes expected and risk not generating the same quality of tender or capacity, or a market led approach which would leave consumers open to door step selling, would reduce take up and would be difficult to concentrate on the more difficult and hard to reach groups.
24. With the procurement now coming close to completion we are at a stage where we need to confirm our commitment to moving forward and start to provide the necessary structure to support delivery of the programme.

Delivery Phase

25. Delivery of the overall project will be focused on key priority areas and property types and on hard to reach residents although ensuring availability to the wider public. In terms of achieving a local identity, a 'Warm Up Durham' element will provide a focus to our County as part of the regional scheme and will be managed in conjunction with Durham County Council's well established Warm Homes Campaign and monitored using our countywide housing energy database to ensure that Durham's needs and opportunity are central to the overall project.
26. This will require some capacity and there is currently a detailed assessment to determine whether delivery can be achieved within existing skills and resource. It is expected that only a small team of professional and administrative personnel is required. As tendering is only at an outline solution stage, there still remains a significant amount of work required in formulating the best deal for our residents, a further report will be therefore be prepared for Cabinet which will identify the successful bidder and give more detail as to how the scheme will work.
27. The overall benefits to residents in establishing this programme are significant; reducing energy consumption, providing a trusted scheme, ensuring any savings generated by the scale of works are passed on to the customer and providing opportunities for local residents and SMEs in delivering the works.

Recommendation

28. That Cabinet;
 - i) continues to support the procurement exercise and selection of a preferred bidder for the initiative;
 - ii) provides authority to enter into an 'Inter Authority Agreement' alongside other Partner Authorities to reflect the position of the Council;

- iii) notes that no capital funding from Durham County Council via prudential borrowing is anticipated at this stage to fund any of the energy saving initiatives;
- iv) supports the establishment of a Delivery Team being established to work with the preferred bidder to ensure the Council's ambitions for the initiative are realised; and
- v) receives a further report on the outcome of the procurement exercise and progress to date once the details are known.

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Appendix 1: Implications

Finance -

The Council has committed to contributing £50,000 towards the procurement process and budgetary provision has been made for this. The funding necessary for delivering energy savings initiatives under the programme does not require Council investment as the finance will come from a new Green Deal Finance Company. As no prudential borrowing would be required, the Council's financial exposure is small with physical interventions being cost neutral to participating authorities.

It should be noted that the GDFC arrangement is not yet fully in place and if this is substantially delayed, prudential borrowing may need to be considered further but this will be subject to further reports to Cabinet before any commitments are made

Staffing –

A review of existing capacity to ensure delivery objectives is underway with the intention that the resource be identified from existing staffing. The outcome of this will be reported as part of the future Cabinet report identifying the preferred bidder.

Risk –

There are potential questions regarding take-up of the Warm up North project interventions by householders. These relate to uncertainties nationally over the viability of the Government's Green Deal initiative, this will be part of the requirement of the preferred bidders marketing and information strategy

Equality and Diversity / Public Sector Equality Duty –

Warm Up North is the regional version of a national scheme (Green Deal). Agreed eligibility criteria will provide additional support for some vulnerable groups. The project particularly benefits targeted vulnerable households subject to fuel poverty (those in 'hard to treat' properties) and aims to have a positive impact across communities.

Accommodation –

None

Crime and Disorder –

None

Human Rights –

None

Consultation –

None

Procurement –

There is cross-authority agreement that Newcastle City Council, will act on behalf of the partner authorities in the procurement of the initiative according to its agreed procedures. The County Council has representatives from legal, finance and procurement ensuring that the Council's policies are maintained.

Disability Issues –
None

Legal Implications –

An inter-authority agreement will be established between the partner authorities' legal leads which includes DCC representation.