

**Report of the Director of Environment and Housing**

**Report to Executive Board**

**Date: 18<sup>th</sup> December 2013**

**Subject: Impact of the ECO changes on Wrap Up Leeds**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. In November, Executive Board received a paper outlining the Council's ambitious programme of domestic energy efficiency activities. The assumptions on which the programme was based have been affected by the Chancellor's Autumn Statement which announced major changes to the way the Energy Company Obligation (ECO) operates. This report informs Executive Board of the immediate and potential impacts.
2. Although the full consequences of this announcement will not be known for several months, the Council is concerned that several of the planned Wrap Up Leeds ECO programmes may be adversely affected. However, although we are concerned that the offer to households will be less attractive, we do not believe that the viability of the longer term Leeds City Region Green Deal/ECO tender will be affected.
3. In an attempt to manage the immediate impact on communities and local jobs, the Council has increased the funding application to DECC's Green Deal Communities fund by c20% to c£1.1m for Leeds, in order to ensure that we can have a consistent offer to householders.
4. Whilst the unit cost of energy is of concern to everyone, a key component in reducing bills is tackling the inefficiency of UK homes. A long-term way to reduce our fuel bills is to invest in the energy efficiency of our homes so that they are less exposed to volatile fossil fuel markets. Because of this, the Council will continue to invest resources in domestic energy saving programmes and will work with Core City and industry partners to lobby government to increase the overall level of investment in energy efficiency.

## **Recommendations**

- 1.1 To authorise the increased bid to DECC's Green Deal Communities fund.
- 1.2 To agree to work with Core Cities colleagues to lobby DECC for a greater future role in delivery of domestic energy efficiency programmes.

## **1 Purpose of this report**

- 1.1 To update Members on the Government's proposed amendments to ECO and outline the consequences for our planned and future domestic energy efficiency programmes.

## **2 Background information**

- 2.1 Government launched the Energy Company Obligation (ECO) in October 2012 as the latest in a long line of obligations (first operated in 1994) placed on energy utilities to reduce energy use in people's homes.
- 2.2 In November 2013, Executive Board received a paper outlining the Council's ambitious programme of domestic energy efficiency activities. This highlighted the work currently underway under the banner of Wrap Up Leeds ECO designed to deliver c5,000 significant energy efficiency improvements to houses in Leeds by October 2014. The planned programme of boiler replacement for vulnerable private sector homes, external wall insulation to council homes and deprived Victorian terraces and the creation of show homes, could attract over £20m of ECO and Green Deal funding to Leeds.
- 2.3 In December 2012 Executive Board committed the Council to lead a Leeds City Region wide procurement worth at least £60m to secure a long term Green Deal and ECO partner from mid-2014. This will deliver energy efficiency improvements to at least 12,000 homes across the region (c6,000 of which will be in Leeds) over a three year period and provide major training and local employment opportunities.
- 2.4 However, the Chancellor's Autumn Statement announced major changes to the way ECO operates (subject to consultation) in an attempt to secure a reduction in energy bills. It also proposed less significant amendments to the Green Deal.
- 2.5 As both Wrap Up Leeds ECO and the longer-term LCR are reliant on ECO funding to provide a compelling offer to households and on policy stability to be able to effectively plan a programme of works, these proposed amendments may have significant impacts.

## **3 Main issues**

- 3.1 Since the Prime Minister indicated a review of 'green levies' on energy bills in late October (which include ECO, the Feed in Tariffs, Renewable Obligation and the Warm Homes Discount) there has been great uncertainty in the energy efficiency and renewable energy industries.
- 3.2 This uncertainty has already caused several programmes in Leeds to be temporarily suspended as it has been impossible for some of our partners to contractually commit to ECO funding beyond the review.
- 3.3 The Chancellor's Autumn Statement announced that Government will consult on plans to reduce energy bills by c£50 in 2014 by providing a £12 rebate on bills and reducing the cost of delivering ECO by £30-35. DECC have announced more detail on these plans which in summary will:

- 3.3.1 **Extend all 3 elements of ECO to 2017.** This is positive as it provides greater funding certainty for an additional 2 years, helping us to plan.
- 3.3.2 **Reducing the CERO target by 33% for each year to 2017 and including cavity wall insulation, loft insulation and district heating within the target.** This will significantly reduce CERO funding rates since it will be much easier for energy companies to achieve their target.
- 3.3.3 **Setting a minimum target for solid wall insulation of 100,000 properties over 4 years.** Although this will ensure that a base level of c25,000 properties receive solid wall insulation each year, this will be significantly below the 80,000 properties that the industry is currently planning to deliver.
- 3.3.4 **Specific additional incentives for the private rented sector and homebuyers, extension of the Green Deal Cash back scheme.** These are to be funded from general taxation and whilst welcome are likely to attract inefficient individual applications, rather than much more efficient programmes of work that target whole neighbourhoods.
- 3.3.5 **An increase in the Green Deal Communities fund from £20-£80m.** This may allow the reduction in ECO rates available for external wall insulation to be offset. The Council was required to revise the bid by Friday 6<sup>th</sup> December, so has already submitted a revised bid on behalf of LCR, increasing our bid by c20% to c£1.1m for Leeds, in order to ensure that we can have a consistent offer to householders.
- 3.4 However, all of these changes (except the new incentives) are subject to legislative change and parliamentary approval which require consultation prior to implementation. It is therefore likely that a consultation will run from January 2014 for 12 weeks, although the precise scope of the consultation is not yet confirmed. The consultation responses will then need to be considered and a final proposal taken through the parliamentary approval process, so it is very unlikely that formal changes to ECO will be implemented before late spring.
- 3.5 This c6 month period of uncertainty is likely to lead to period of relatively low activity in the solid wall insulation sector as utilities develop their new ECO strategies. It is hard to know when utilities will change the rates they pay under CERO: it is quite possible that utilities will price in the Chancellor's announcement even before the consultation concludes. We expect most utilities to begin to reduce CERO rates later this spring by up to 30% to refocus solid wall insulation on properties with greatest carbon saving potential (unimproved non-gas heated properties).
- 3.6 Although the full consequences of this announcement will not be known for several months, the Council is concerned that several of the planned Wrap Up Leeds ECO programmes may be adversely affected. We are in constant dialogue with our Wrap Up Leeds ECO partners and will verbally update Executive Board on the latest position. Currently, the most at risk programmes include:
- 3.6.1 **The Nowells 'neighbourhood approach' area.** The Council, police and other agencies are working intensively in these 150 properties to improve housing

standards, reduce anti-social behaviour and bring empty properties back into use. Over 70% of residents and landlords had signed up to a c£1.5m scheme to install solid wall insulation and room in roof insulation, fully funded by ECO. This is now on hold.

**3.6.2 Housing Leeds external wall insulation programmes.** The Council is currently using ECO to part fund external wall insulation to c200 Council houses, mostly in the south of the city. However, the ECO funding to install external wall insulation to more than 100 more Council houses (and another c100 right to buy homes) in west and east Leeds is now uncertain, so these programmes are on hold. Even with reduced ECO rates they are likely to progress early in the New Year, but would insulate fewer homes.

**3.6.3 The Cross Green Sustainable Communities Investment Programme.** The Council has committed £5m to a regeneration programme to deliver energy efficiency works to homes and environmental improvements in the neighbourhoods of Cross Green and the Nevilles. However, this is reliant on attracting c£1.1m of ECO funding for internal and external wall insulation (on top of Council funding for new windows, doors, roof insulation and heating systems). Although this programme is not due to start until April 2014, the uncertainty over ECO rates will make contracting difficult but won't delay the programme. If rates reduce, the Council will either have to reduce the number of homes assisted or not include solid wall insulation to some properties.

**3.6.4 Area based external wall programmes.** The Council has started to develop plans with our contractors to intensively market solid wall insulation to several neighbourhoods, right across the city, as this approach has been shown to be particularly efficient. ECO uncertainty means planning is now on hold. If the Green Deal Communities bid is successful, these will become viable, even with reduced rates, but without it are very unlikely to proceed as they will not generate enough demand for economies of scale to make delivery efficient.

**3.7** However, although we are concerned that the offer to households will be less attractive, we do not believe that the viability of the longer term Leeds City Region Green Deal/ECO tender will be affected.

**3.8** The Council remains fully committed to making Wrap Up Leeds ECO and the longer term Leeds City Region programmes a success: we have to do so in order to help cut bills, reduce carbon emissions and make sure people can afford to keep warm.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

**4.1.1** There has been no engagement with local authorities by Government in the lead up to this policy change. Therefore there has been no opportunity to consult with stakeholders on the impact of the changes.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 Screening shows that low-income vulnerable residents living in inefficient Victorian terraces will be most adversely affected by this policy change. The discretionary Fuel Poverty Fund will provide some assistance, but unfortunately needs are likely to significantly outweigh available resource.

### **4.3 Council policies and City Priorities**

- 4.3.1 The Vision for Leeds is committed to making sure that everybody lives in a decent home and can stay warm by 2030. In addition, the City Priority Plan to 2015 commits the authority to “support more people to live safely in their own homes” and “improve housing conditions and energy efficiency”.
- 4.3.2 ECO support for solid wall insulation is critical to help the city achieve both aims.

### **4.4 Resources and value for money**

- 4.4.1 In an era of shrinking budgets, the Council is committed to drawing down external investment from sources such as ECO. The announcement will affect the programmes highlighted in this report and may slow down some of the Council’s ambitious plans for the future.

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 The report has no direct legal implications and all information is openly accessible.
- 4.5.2 The recommended decisions are all open to Call In.

### **4.6 Risk Management**

- 4.6.1 It is very difficult to manage the risk of Government changing policy before the planned review date. However, by staying close to Government and industry we have been aware of this possible change for long enough to pause programmes and avoid being in an even worse position, by over promising to householders.

## **5 Conclusions**

- 5.1 The Government’s decision to review ECO and the Green Deal now, just a year after they launched, has introduced a period of uncertainty into the domestic energy efficiency market.
- 5.2 The proposed changes will certainly have a detrimental effect on planned area based external wall insulation programmes, although until the consultation has concluded and the market has built the changes into their future ECO strategies, it is impossible to say exactly what the impacts will be.
- 5.3 The key to reduce fuel bills is to invest in the energy efficiency of our homes so that they are less exposed to volatile fossil fuel markets. Because of this, the Council will continue to invest our resources in domestic energy saving programmes and will work with Core City and industry partners to ensure that government increases the overall level of investment in energy efficiency.

## **6 Recommendations**

- 6.1 To authorise the increased bid to DECC's Green Deal Communities fund.
- 6.2 To agree to work with Core Cities colleagues to lobby DECC for a greater future role in delivery of domestic energy efficiency programmes.

## **7 Background documents<sup>1</sup>**

- 7.1 None.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.