

Report of the Sustainable Energy and Climate Change Team

Report to the Director of Environments and Housing

Date: 05/02/2015

Subject: Permission to Tender for a Fuel Poverty Loan Fund

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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" 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. National grant assistance for many energy efficiency measures is limited to households that fit certain eligibility criteria, related to both the individual and the house. This means that some of the most vulnerable households on a low income may be in danger of falling into fuel poverty, or may have difficulty keeping warm because they are not eligible for a full grant towards energy efficiency improvements or adequate heating.
2. Some Government cash back offers, such as the Green Deal Home Improvement Fund (GDHIF), rely on the household making a high initial capital outlay. This acts as a barrier to lower income households, even though they are eligible to receive this cash back.
3. The Green Deal was supposed to offer a way for households to finance more expensive energy efficiency measures, however, interest rates of 7% or more and a twenty-five year pay-back period act as a disincentive to some households to take out this type of finance.
4. A low interest loan would allow some lower income households who do not meet the eligibility criteria for grant assistance to install energy efficiency measures that they might not otherwise be in a position to finance. It would also provide short-term bridging loans to allow lower income households to apply for cash back.
5. We estimate that administering the loan fund will cost approximately £20,000 over three years. We therefore intend to obtain the best of three quotations.

Recommendations

6. That the Director of Environments and Housing grants permission to tender for a third party organisation to administer a £150,000 loan fund to provide low cost loans to support the Warm Homes Service and Better Homes Leeds and to enable households to take advantage of government cash back schemes.

1 Purpose of this report

- 1.1 The purpose of this report is to obtain permission to tender for a third party organisation to administer a £150,000 loan fund.

2 Background information

- 2.1 Better Homes Leeds will be launched in March this year. This will rely on a combination of Green Deal finance and Energy Company Obligation (ECO) funding for a wide range of energy efficiency measures. However, a large number of low income households will either not be eligible for ECO funding, or funding will not cover the whole cost of measures. In addition, we know some funds will only be available intermittently.
- 2.2 Green Deal finance is unpopular with many households on account of the 25 year payback period and high interest rates. This may act as a barrier to the uptake of energy efficiency measures through Better Homes Leeds or the installation of heating through the Warm homes Service.
- 2.3 The government currently offers cash back to encourage the uptake of expensive energy efficiency measures such as external wall insulation. Cash back is up to £4,000 or two thirds of the cost of the insulation, whichever is lower. However, the ability of households to take advantage of the cash back depends on them being in a position to pay the whole cost of the job up front, then to wait several weeks or even months for the cash back to be paid. We know this is a significant barrier for households with limited savings/credit.

3 Main issues

- 3.1 We plan to tender for a third party organisation to administer a £150,000 fuel poverty loan scheme to support Better Homes Leeds and the Warm Homes Service. Two types of loan would be available:
 - 3.1.1 Where grant funding is either not, or only partially available for an energy efficiency or heating measure, households will be able to take out a loan of up to ten years duration at an interest rate of 4.5%. The maximum loan will be £2,500 per applicant, per property, or such other greater sum as the Authority may in its discretion agree. The minimum loan will be £750 per applicant per property. Loan set-up fees will be payable by the householder.
 - 3.1.2 Where a household wishes to make use of a Government cash back scheme such as the Green Deal Home Improvement Fund, they will be able to take out a short term bridging loan at an interest rate of 0% until the cash-back is received. The value will not exceed the cash back allocated, giving a maximum of £4,000 per household. If the loan exceeds four months for any reason, the loan will become repayable at 4.5%.
 - 3.1.3 Where households take out a bridging loan, they may still require assistance in financing the remaining householder contribution. For the householder contribution, they would be able to take out a long term loan at 4.5%.

- 3.2 £150,000 has been identified from the Wrap Up Leeds scheme capital underspend to fund the scheme.
- 3.3 We estimate the potential value of the loan fund as being approximately £20,000 in terms of administration fees to the third party administrator. We therefore intend to obtain the best of three quotations to provide the service for an initial 3 year period with the option to extend for a further 3 + 2 years. This would ensure that the loan fund would operate over the full Better Homes Leeds contract period.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The loan is purely a finance mechanism to allow households to benefit from existing schemes such as Better Homes Leeds and the Warm Homes Service. The Green Deal Demonstrator provided over £500k of interest free loans in a 12 month period to households in all income brackets, demonstrating a clear desire for affordable loans.
- 4.1.2 We have briefed the portfolio holder for the Environment on the proposed loan fund and he is supportive.
- 4.1.3 Clients have already experienced longer than expected turn-around times for the GDHIF, with one client having to wait over four months between paying for the work and receiving the cash back, potentially causing significant finance issues. We have also already had cases of lower income clients faced with substantial shortfalls in funding for the installation of heating systems, even once ECO and discretionary fuel poverty funding have been taken into account.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 Warm Homes Service, Discretionary Fuel Poverty Fund and Better Homes Yorkshire have already undergone equality screening, which demonstrated positive impacts. This funding arrangement will enable a wider range of low income households to access energy efficiency measures through the schemes, particularly those for whom the need to provide substantial householder contributions or up-front payments constitute a significant barrier.

4.3 Council policies and City Priorities

- 4.3.1 The Vision for Leeds 2011 to 2030 acknowledges that climate change is one of the three major challenges that have emerged since the last Vision was published in 2004 and has a specific aim to ensure that "all homes are of a decent standard and everyone can stay warm".
- 4.3.2 The Vision is supported by the City Priority Plan 2011 to 2015, which brings together a number of key four-year priorities that will help us deliver the 2030 Vision. It is supported by five separate action plans that address the five key themes. Of these, two contain priorities which are directly relevant to the strategy:

Best City.... for business:

1. Create more jobs.
2. Improve the environment through reduced carbon emissions.

Best City.... to live:

1. Maximise regeneration investment to increase housing choice and affordability within sustainable neighbourhoods.
2. Enable growth of the City whilst protecting the distinctive green character of the city.
3. Improve housing conditions and energy efficiency.

4.3.3 Affordable Warmth has been included as a priority in the Joint Health and Wellbeing Strategy 2013-15, as a result of the scrutiny enquiry on fuel poverty and this scheme will help to address this priority.

4.4 Resources and value for money

4.4.1 Because the fund will be loaned to Leeds householders at either 4.5% (or 0% interest for very short periods of time) the fund will not represent a drain on the Authorities resources and loan repayments can be used to fund further energy efficiency improvements in future. However

4.4.2 The fund will allow existing projects such as Better Homes Leeds and the Warm Homes Service, to reach a wider range of people in need and will help to prevent households turning to loan sharks or payday lenders to ensure that their home can be heated. It will also enable more households to take part in area based improvement schemes and in the case of external wall insulation, will help to prevent the unsightly pepperpotting of improved areas with unimproved homes

4.4.3 Assuming 20 households take bridging loans of £4,000 in one round of GDHIF and these are then repaid and loaned out in a later round of GDHIF, this could facilitate £320,000 of energy efficiency improvements including £160,000 of central government grant funding over 40 households per annum. In addition to the above, the fund could facilitate energy efficiency improvements for fifty lower income households through longer term loans, if they take out the maximum loan of £2,500, drawing in further match funding.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This decision is not eligible for call-in as it is below the threshold.

4.6 Risk Management

4.6.1 The main risk is that households will not be able to keep up with loan repayments. We will ensure that robust credit checking procedures are included as part of the tender specification.

4.6.2 There is an inherent risk in all schemes based on the Green Deal/ECO, including Better Homes Leeds that ECO rates may not provide a sufficient incentive to

encourage people to have energy efficiency improvements installed, leading to a lower than expected uptake of measures. This loan mechanism will greatly mitigate that risk by ensuring that a suitable finance mechanism is available to a wide range of lower income households instead.

- 4.6.3 There is a risk that borderline households will be tipped into fuel poverty through not being able to install heating or energy efficiency measures, or will be pushed into taking out loans from disreputable lenders if this loan is not made available to people. If a vulnerable household were to fail the administrators credit check, they could still potentially be referred to the Leeds discretionary Fuel Poverty Fund for grant assistance

5 Conclusions

- 5.1 With grant funding limited to more vulnerable households and expensive energy efficiency improvements requiring a substantial household contribution, there is a need for an affordable loan scheme that will enable lower and middle income households to access energy efficiency improvements.
- 5.2 There is also a need for a short term bridging loan facility to enable households to take advantage of cash back offers such as the Green Deal Home Improvement Fund.

6 Recommendations

- 6.1 That the Director of Environments and Housing grants permission to tender for a third party organisation to administer a £150,000 loan fund to provide low cost loans to support the Warm Homes Service and Better Homes Leeds and to enable households to take advantage of Government Cash Back schemes.

7 Background documents¹

- 7.1 None

¹ 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.