

**Report of the Sustainable Energy and Air Quality Team
Report to the Director of Resources and Housing**

Date: 20th December 2018

Subject: Energy Company Obligation 3 (ECO3) Funding for Leeds District Heating

Are specific electoral wards affected? If yes, name(s) of ward(s): Burmantofts and Richmond Hill	<input checked="" type="checkbox"/> Yes <input 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. The council is currently committed to replacing old electric heating systems with new wet heating systems in 1440 flats in Lincoln Green and Ebor Gardens as part of the Leeds PIPES district heating network (DHN). The council is also replacing end of life communal boilers in Saxton Gardens and Stoney rock with connections to the Leeds PIPES DHN.
2. The council has been in consultation with Cenergist Limited to facilitate c£1.45m of ECO3 funding for the planned works. They would also provide additional small energy efficiency improvements for tenants.
3. As Lincoln Green is part-funded by ERDF, we have secured the verbal agreement of the Ministry of Housing, Communities & Local Government (MHCLG) to use any ECO funding to improve the energy efficiency of other properties in the area or to stimulate low carbon led regeneration in the area.
4. It is therefore recommended that we enter into an ECO3 funding agreement with Cenergist and to secure formal agreement from MHCLG to use the ECO3 income on other energy efficiency or low carbon works.

Recommendations

- 1.1 That the Director of Resources and Housing agrees to enter into a ECO3 Funding Agreement with Cenergist Ltd in order to receive ECO funding from the installation of heating in flats as part of the Leeds PIPES district heating programme.

- 1.2 That the Director of Resources and Housing ringfences any ECO funding generated from the Leeds PIPES district heating programme to support this project and other low carbon and fuel poverty initiatives within the HRA capital programme, with a separate ERDF change request submitted to formalise the use.

1. Purpose of this report

- 1.1 To facilitate the drawdown of Energy Company Obligation (ECO3) funding via the Leeds PIPES district heating programme.

2. Background information

- 2.1 In February 2016, Executive Board granted approval to commence the procurement of a district heating network which would take advantage of energy produced by the energy from waste facility in Cross Green, to provide affordable and controllable heating to up to 1,983 flats in high rise blocks within the Lincoln Green, Ebor Gardens and Saxton Gardens areas of East Leeds. The Housing Revenue Account is supporting the installation of heating systems within the flats and associated works, with 1,080 of those flats in the Lincoln Green area receiving ERDF match funding.
- 2.2 The Government announced ECO3 in Spring 2018 and the final scheme regulations were approved on 3 December 2018. The Council has been looking at this grant support and now that the rules are finalised we can proceed to draw down this grant funding to support energy efficiency projects, in order to tackle fuel poverty and reduce carbon.
- 2.3 ECO3 prioritises the replacement of old and inefficient heating systems in fuel poor homes with low energy ratings (i.e. EPC E or below). This provides a mechanism to secure additional funding for all 1,440 flats in Lincoln Green and Ebor Gardens where we plan to replace old and inefficient storage heaters and underfloor heating. It may also provide funding for a small percentage of properties in Saxton Gardens and Stoney Rock where we are replacing old communal gas boilers with CHP-led low carbon district heating.

3. Main issues

- 3.1 Earlier this year, we were approached by Cenergist, an energy consultancy/delivery body who are often engaged by energy companies to help discharge ECO responsibilities, to discuss opportunities. Cenergist undertook preliminary survey work on a sample of the flats (at their own risk), and have now formulated an offer for c£1,000 per property (up to £1.45m overall, depending on take-up). Cenergist have also agreed to provide energy saving equipment (i.e. 4 LED light bulbs and 'shower smart' water saving device) to the tenants to help save money. This is worth another c£100,000.
- 3.2 Claiming ECO funding is complex and time consuming and there is an inherent risk that ECO suppliers might not fund measures if they can meet their obligation elsewhere, even if a property is established as eligible. Cenergist have support from two providers and a good track record in the ECO market so have agreed to bear this risk. To reduce the administrative burden on the council, Cenergist have offered to embed a project manager in the Housing Leeds team responsible for delivering Leeds PIPES for 18 months to assist with the process of claiming ECO.
- 3.3 Cenergist are currently contracted by Vital Energi to undertake all EPC surveying for the project. They therefore already have access to the relevant property data to ascertain whether each flat would be eligible for ECO3.
- 3.4 The district heating works in the Lincoln Green area are part funded by an ERDF grant. We are currently in discussions with MHCLG to seek their formal agreement

to use the ECO funding to undertake additional energy efficiency measures in the Lincoln Green area. Possible options, post DH, include external wall insulation to high rise buildings, energy efficiency makeovers of low/medium rise blocks (external wall insulation and loft insulation) or to support the low carbon regeneration of properties in the area, contributing to the council house building programme. This will both add value to the project and avoid any clawback of the ERDF grant.

- 3.5 The district heating works in the other areas (Ebor Gardens, Stoney Rock and Saxton Gardens) are fully funded by the Housing Revenue Account. Therefore any additional ECO income is not fettered by any ERDF requirements but it would be fitting if this were ringfenced to support the works identified above.
- 3.6 Executive Board took decision D44638 on 17th July 2017 to delegate authority to the Director of Resources and Housing to enter into all other documentation and take all other decisions required for the delivery of the district heating network project and approve operational decisions relating to the district heating scheme.
- 3.7 However, as the potential income is over £250k, entering into the ECO3 funding agreement with Cenergist becomes a key decision.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 All district heating works referenced in this report have already been approved through decisions D44638, therefore the necessary consultation and engagement has been undertaken.
- 4.1.2 SEAQ and Housing Leeds will work together to identify the best use of the ECO funding and appropriate consultation will take place prior to committing the funds to a particular project.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 All works referenced in this report have already been approved through decision D44638, therefore the necessary equality, diversity /cohesion and integration screening has been undertaken at the time of those decisions.

4.3 Council policies and best council plan

- 4.3.1 The district heating project and installation of external wall insulation will help Leeds to achieve the following Best Council Plan 2018/19 – 2020/21 priorities of:
 - 4.3.1.1 Promoting a low carbon economy
 - 4.3.1.2 Tackling fuel poverty
 - 4.3.1.3 Providing housing of the right quality
 - 4.3.1.4 Targeting work to tackle poverty in priority neighbourhoods.

4.4 Resources and value for money

- 4.4.1 All the district heating works outlined in this report have already been agreed to in the previous decision referenced, therefore no additional council capital expenditure will be committed as a result of this decision.

- 4.4.2 The receipt of this ECO funding supports the delivery of this project and other energy efficiency improvements to council properties.
- 4.4.3 Tenants will benefit from reduced power bills via the LED light bulbs provided by Cenergist and other small energy saving devices.
- 4.4.4 There will be minimal new staff time requirements as Cenergist have offered to embed a project manager to undertake all ECO administrative work.
- 4.4.5 The council believes that the offer from Cenergist represents good value for money. This is based on recent experience on other projects and judging by the tender for this project where the best offer received from tenderers was less than 25% of the offer from Cenergist.

4.5 Legal implications, access to information, and call-in

- 4.5.1 Due to the value of the potential saving, this is a key decision and therefore eligible for call-in.
- 4.5.2 Legal advice will be taken from PACS on the terms of the funding agreement prior to signature.

4.6 Risk management

- 4.6.1 The availability of ECO funding is determined partly by the progress made by individual ECO suppliers towards meeting their obligation, therefore there is a risk that having undertaken the necessary administrative process to claim ECO, the ECO suppliers are not prepared to fund the measures. This risk is mitigated by entering into a contract with Cenergist, where they have a relationship with a number of ECO providers so can back off this risk with a range of companies.

5. Conclusions

- 5.1 Leeds City Council has the potential to secure up to £1.45m ECO funding and c£100k worth of additional energy efficiency works to flats via a Funding Agreement with Cenergist. This funding can help the council to accelerate additional energy efficiency works in priority properties and reduced the financial burden on the Housing Revenue Account.

6. Recommendations

- 6.1 That the Director of Resources and Housing agrees to enter into a ECO3 Funding Agreement with Cenergist Ltd in order to receive ECO funding from the installation of heating in flats as part of the Leeds PIPES district heating programme.
- 6.2 That the Director of Resources and Housing ringfences any ECO funding generated from the Leeds PIPES district heating programme to support this project and other low carbon and fuel poverty initiatives within the HRA capital programme, with a separate ERDF change request submitted to formalise the use.

7. Background documents¹

7.1 There are no background documents

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.