

<b>DECISION-MAKER:</b>		<b>PEOPLE DIRECTOR</b>		
<b>SUBJECT:</b>		ENERGY COMPANY OBLIGATION (ECO) TENDER ARRANGEMENTS		
<b>DATE OF DECISION:</b>		8 MAY 2013		
<b>REPORT OF:</b>		HEAD OF HOUSING SERVICES		
<b><u>CONTACT DETAILS</u></b>				
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## STATEMENT OF CONFIDENTIALITY

### BRIEF SUMMARY

This report seeks approval for the Council to let a tender for securing a commercial partner to provide Energy Company Obligation (ECO) funding for energy efficiency works to homes in the City for a period of up to 7 years.

The contract with a strategic commercial partner, led by the Council on behalf of a number of local authorities in the Solent, aims to support a key outcome of reducing fuel poverty, but will also lead to the creation of new jobs, build an effective skills base in the green economy, reduce the city's carbon footprint and support economic growth in the sub-region.

### RECOMMENDATIONS:

- (i) To enter into a procurement process, up to and including selection of preferred bidder, to secure ECO funding for the City and on behalf of other local authorities.
- (ii) To note a further report will be brought forward for Cabinet in the summer seeking approval for officers to enter into the contract with the preferred commercial delivery partner following completion of the tender process in the early autumn.

### REASONS FOR REPORT RECOMMENDATIONS

1. Delegated officer approval is required to advertise a contract of this size through the OJEU procurement process. The Council has significant parts of its housing stock that are thermally inefficient and constructed in a 'non-traditional' way. These means many of the properties have no cavity that can be filled in the normal way or are constructed from concrete panels which have a lower thermal performance. These homes are some of the hardest and expensive to heat in the Council stock and due to the low incomes of many council tenants means that many tenants and children in the city are

living with deprivation due to fuel poverty. ECO funding is designed to be targeted at such 'hard to treat' properties improving the appearance, structural integrity, but most importantly their performance. From the work undertaken at International Way providing improved building performance through insulation and new heating systems cuts tenants fuel bills by at least 50% and for many families this will lift them out of poverty and improve their overall health and well-being which in turn will provide significant benefits to the city.

2. By Southampton leading on this partnership we can ensure a significant benefit in the local employment and skills market by using the partnership to support small and medium size local firms, investment in the local supply chain and skills development through the local colleges. This will place Southampton at the heart of the growth of the regional green economy and bring new employment and skills to the city and the wider region.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. Not to enter into a partnership arrangement with a utility or national construction company was rejected as this is a significant funding opportunity for the Council and its other local authority partners. This delivery model was chosen as a way of ensuring the effective management and coordination of such a large and complex delivery programme.

### **DETAIL (Including consultation carried out)**

4. Southampton City Council is seeking to secure Energy Company Obligation (ECO) funding on behalf of a group of local authorities in the Solent region.
5. From October 2012 the new Energy Company Obligation (ECO) introduces new obligations for energy suppliers to improve the energy efficiency of domestic households through the establishment of three distinct targets:
  1. the Carbon Emission Reduction Target (CERT) - 20.9 million lifetime tonnes of carbon dioxide. Focusing on hard to treat homes and, in particular, measures that cannot be fully funded through the 'Green Deal'. Solid wall insulation and hard-to-treat cavity wall insulation are the primary measures to be promoted under this target. Other insulation measures and connections to district heating systems are also eligible if they are promoted as part of a package.
  2. the Carbon Savings Community Target (CSCT) - 6.8 million lifetime tonnes of carbon dioxide. Focusing on the provision of insulation measures and connections to district heating systems to domestic energy users that live within an area of low income.
  3. the Home Heating Cost Reduction Target (HHCR) - £4.2bn of cost savings. Requiring energy suppliers to provide measures which improve the ability of low income and vulnerable households (the 'Affordable Warmth Group') to affordably heat their homes via the promotion of heat qualifying actions (the installation of a measure that will result in cost savings; or the replacement or repair of a qualifying boiler).

Discussions with a number of utilities have indicated that ECO funding will be available initially for the period up to and including 2015 and that further energy company obligation funding is likely to be made available up to 2020.
6. It is estimated that up to £50 million ECO funding could be spent within the

Solent sub-region over the next 2 – 3 years.

7. A number of local authorities with a retained housing stock along with Southampton City Council have confirmed an interest in taking part in the scheme which includes Portsmouth City, Winchester City, New Forest District, Fareham Borough and Gosport Borough.

Further, the arrangement is going to be structured in such a way as to seek to make it possible for other public sector bodies to participate and take advantage of the arrangement which the Council is seeking to establish. The Council intends to establish whether future participation by other public sector bodies can be used as a means to obtain a payment from the arrangement to contribute towards defraying the Council's initial set-up costs.
8. A number of additional advantages are considered to be available through a collaborative approach with the direct or indirect involvement of a utility funding partner:
  - A large scale ECO partnership would attract interest from a utility to meet a substantial portion of its overall funding obligation through a long term arrangement for this purpose.
  - The collaborative working arrangements will provide an impetus and build capacity to enable the further development of other joint projects and initiatives through the partnership.
  - A large ECO partnership should have the scale to influence industry and Government.
9. ECO funding managed and coordinated on a large scale has the potential to transform significant numbers of communities where people on low incomes are experiencing fuel poverty and are faced with ever increasing fuel bills. DECC estimates annual fuel bill reductions per household in the range of £150 to £250 following ECO-funded measures. DECC estimates that ECO carbon targets for the whole UK programme will total 27.8 million tonnes of CO2 between January 2013 and March 2015.
10. As well as providing much needed energy efficiency improvements in people's homes and providing bill savings the ECO partnership will have a sufficient scale to also contribute to business growth, job and apprenticeship creation, safeguarding existing jobs, and developing an appropriate skills base. The tendering process will include requirements for skills and labour market outcomes, and there will be a programme of market development of the local SME base so they can gain work from the main contractor, as well as multi-agency skills delivery to ensure local people, particularly those from target communities, will be best placed to take advantage of the significant employment opportunities across the Solent area.
11. Previous research from CERT and CESP energy schemes estimates that using a contract value of £50m, with around 21,000 properties treated, 590 to 760 new jobs would be created with an additional 300 jobs safeguarded. The support from the skills councils will also be a fundamental element to ensure active engagement with SME's at the most appropriate level connecting them to the most appropriate training scheme for their requirements.
12. The capacity developed by the ECO funding partnership also generates the required scale to deliver energy measures for the able-to-pay residents in

privately owned properties making use of ECO funding and the Green Deal. Match funding would also be available from local authority housing investment programmes. This large scale ambition is supported by the utilities we have been in discussions with.

13. Whilst the Green Deal will provide a significant opportunity for the Council to help improve the quality of private housing in the City at this stage it is difficult to estimate the appetite for Green Deal measures within the private residents or private landlords in the City. In addition, the Green Deal will not generate significant extra funds for the Council to address some of the issues with its own Housing stock. On the other hand the Council has an opportunity to draw in significant funding through ECO. This could help generate a partnership infrastructure which will deliver improvements to our Housing stock and provide the basis for a strong Green Deal offer to the rest of the City.
14. This contract opportunity is intended to attract a large energy utility or a large national contractor with sufficient capacity to meet the required outcomes. The preferred contractor will be expected to provide ongoing support and development for ECO whilst supporting other energy related opportunities such as district energy and individual ECO/Green Deal schemes throughout the term of the contract.
15. The big six energy companies are looking for opportunities to invest ECO funds and discharge their obligation to central government to do so and are keen to commence projects as quickly as possible having learnt from the CESP experience. British Gas for example is responsible for one third of the total ECO statutory energy efficiency targets and rather than spread their resources over a multitude of small projects nationally are keen to form strong local partnerships in key strategic areas to help deliver their obligation. This presents the Council with a significant opportunity to attract a partner or series of partners to maximise the investment in the City and become the sub-regional basis of a new business.
16. An officer working group has been set up to develop the tender process and tender documentation with membership from Sustainability, Housing, Private Sector Housing, Children's Services, Legal and Procurement. The partner local authorities involved in the scheme will be updated as appropriate on the progress being made on the scheme.
17. Due to the size and complexity of this project an external law firm specialising in this sector has been commissioned by the Council using HRA funding to develop the relevant tender documents and to support the Council through the tender process. They have significant experience in this area of work which includes having recently acted for Birmingham City Council on their Birmingham Energy Savers project.
18. Early indications are that a Negotiated OJEU tender procedure would be appropriate for the Council's project which should be capable of delivering the appointment of a commercial partner in the autumn later this year.
19. In conclusion a group of local authorities led by Southampton City Council are seeking to create an ECO energy partnership to achieve sustainable outcomes in the Solent sub-region on a significant scale.

## RESOURCE IMPLICATIONS

### Capital/Revenue

20. ECO funding is provided by the energy companies to discharge obligations imposed upon them by central government and an estimated £ 1.3 billion annually is available nationally for this purpose.
21. The current Housing Revenue Account Capital Programme, approved by Cabinet on 5 February and Council on 13 February 2013, includes the provision of £21.494m capital funding to support the provision of external cladding and insulation to houses, walk-up blocks and tower blocks in the city as well as alternative heating and renewable energy sources from 2013-2018. These resources will be available to support wider delivery of ECO and District Energy projects and associated works and fees as part of this partnership. In addition the HRA retains borrowing headroom within the business plan over this period which can be utilised for additional support if required. This funding will ensure a comprehensive treatment of respective properties to maximise the opportunities the new funding provides.

### Property/Other

22. ECO funding combined with HRA capital funding will significantly improve the standard of the Council's housing stock, reduce fuel poverty and improve the health and well-being of tenants.

## LEGAL IMPLICATIONS

### Statutory power to undertake proposals in the report:

23. Section 1 of the Localism Act 2011 permits the Council to do anything that any other person or private body could do (the 'General Power of Competence'). The use of the power is subject to a number of pre and post commencement limitations, none of which are considered to apply in this case.

### Other Legal Implications:

24. The ECO funding project will be delivered in accordance with Finance and Contract procedure Rules and any procurement and subsequent delivery of ECO funded projects will be subject to compliance with the requirements of the Equalities Act 2010, in particular the Public Sector Equality Duty and having regard to the need to reduce crime and disorder in accordance with S.17 of the Crime & Disorder Act 1998.

## POLICY FRAMEWORK IMPLICATIONS

25. As mentioned in the main body of the report the procurement of a strategic partner to deliver energy measures satisfies a number of council policies and key objectives, which are included the provisions of the Southampton Connect Plan, and the Council's housing and property strategies.

**KEY DECISION?** Yes

**WARDS/COMMUNITIES AFFECTED:**

All

## **SUPPORTING DOCUMENTATION**

### **Appendices**

1.	None.
2.	

### **Documents In Members' Rooms**

1.	
2.	

### **Equality Impact Assessment**

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No
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### **Other Background Documents**

#### **Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.		
2.		