
WARM UP NORTH – MEMORANDUM OF UNDERSTANDING

**Responsible Cabinet Members –
Councillor Chris McEwan, Economy and Regeneration**

Responsible Directors – Richard Alty, Director of Place

SUMMARY REPORT

Purpose of the Report

1. To seek the approval of Members to formally agree partnership arrangements with regional Local Authority partners for the Warm Up North programme.
2. To seek Member approval for the release of up to £5M of Prudential borrowing over the period of 2013-2016 to fund the upfront costs of the programme.

Summary

3. The Warm Up North programme (previously called the Newcastle retrofit programme) is the agreed branding name for the regional partnership which is proposing to deliver energy efficiency measures to residential and other public buildings through the Green Deal from 2013. This programme will replace all other current grant funded schemes installing energy efficiency measures to homes. The regional partnership is led by City of Newcastle Council but also includes Darlington, Durham, South Tyneside and Northumberland authorities. Prior to commencing the procurement process to appoint a delivery partner for the programme, City of Newcastle Council are seeking each of the Local Authority partners to sign a Memorandum of Understanding (MOU) which outlines the basis on which the partnership arrangements will operate. The release of Prudential borrowing is sought to front fund the investment in local residential and public owned buildings in Darlington.

Recommendation

4. It is recommended that:-
 - (a) Members approve the formal signing of the Warm Up North Memorandum of Understanding.
 - (b) Members approve in principle the release of £5M of prudential borrowing to fund energy efficiency improvements in residential homes and other public buildings in Darlington commencing in 2013-14 for a period of 3 years, subject to compliance with state aid requirements.

- (c) Members note the governance arrangements in place to ensure the effective and successful delivery of the programme.

Reasons

- 5. The recommendations are supported by the following reasons:-
 - (a) Warm Up North provides a cost effective and efficient framework with which to deliver energy efficiency improvements in Darlington through the Green Deal.
 - (b) Current grant funded assistance for energy efficiency measures in residential properties will discontinue in December 2012.
 - (c) Warm Up North provides the framework to deliver energy efficiency improvements to non-traditional residential properties across all housing sectors and ensure decency standards are met.
 - (d) Warm Up North will contribute to the Council's Carbon Management Plan, reducing carbon emissions, and, tackling inequalities through reducing fuel poverty.
 - (e) The Prudential Borrowing will be recovered through household or business electricity bills over a period of 25 years through an Energy Company Obligation (ECO).

Richard Alty, Director of Place

Background Papers

Warm Up North Memorandum of Understanding
Cabinet paper – Housing Retrofit Programme 2013-2016 dated 6th December 2011.

Alan Glew Tel. No. 01325 388202

S17 Crime and Disorder	The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is considered that some of the improvement works identified in this report will be beneficial in reducing crime.
Health and Well Being	Warm Up North will improve the thermal comfort levels of residential properties across all housing sectors thus reducing the likelihood of cold related illnesses.
Carbon Impact	Warm Up North will reduce energy costs and usage reducing the level of carbon emissions.
Diversity	Warm Up North will tackle inequalities by reducing energy costs and consumption and, therefore, reduce the incidence of fuel poverty.
Wards Affected	All wards
Groups Affected	Any residential household or public owned building in Darlington.
Budget and Policy Framework	This report does not recommend any changes to the budget and policy framework.
Key Decision	Yes.
Urgent Decision	Yes, requirement to formally sign the Memorandum of Understanding to secure European match funding, and, to commence the procurement process.
One Darlington: Perfectly Placed	The proposed installation of energy efficiency measures contributes to the delivery of the Sustainable Community Strategy through each of the theme areas.
Efficiency	Planned investment through the proposed Warm Up North programme will sustain communities across Darlington without the need for further intervention.

MAIN REPORT

Information and Analysis

6. On 27th July 2011, City of Newcastle Council secured approval from their Cabinet to deliver an energy efficiency scheme to improve residential homes and public buildings energy performance. This was in response to the Government's Green Deal proposals which replaces existing Carbon Emissions Reduction Target (CERT) and Community Energy Savings Programme (CESP) schemes in 2012. In assessing the delivery of this new energy efficiency programme called "Warm Up North", Newcastle have concluded that they need to deliver energy efficiency improvements to between 10,000 and 15,000 properties in Phase 1 (2013-2016) of the programme.
7. Darlington, similarly to Newcastle, has delivered a number of energy efficiency schemes over several years and many of the "easy to treat" residential properties now benefit from installed energy efficiency measures. The challenge moving forward is to introduce an energy efficiency programme through the Government's Green Deal proposals to address some of the more difficult and costly non-traditional built buildings to maintain the momentum of the CERT and CESP schemes, ensure households do not fall into fuel poverty, and, to maintain carbon reduction commitments. Darlington has a high proportion of pre-1919 privately owned housing stock in the Borough which could benefit significantly from the Warm Up North programme.
8. To meet the target property numbers of between 10,000 and 15,000 properties, Newcastle has invited its regional Local Authority partners to participate in the Warm Up North programme as they are unable to achieve this target property number in isolation. To date, Durham, Northumberland, South Tyneside and Darlington have joined the partnership with Gateshead hoping to join at a later date and Redcar and Cleveland and Middlesbrough Councils engaged in dialogue with Newcastle. The Association of North East Council's (ANEC) is also a consultative partner in the programme.
9. The Energy Act 2011, enables upfront funding for energy efficiency improvements which are then repaid through a charge on the consumer's electricity bill provided the cost does not exceed the savings achieved through the installation of the energy efficiency measures. This is known as the Golden Rule. There is provision within the programme for non-payment or defaults on electricity bill payments, this will be covered in more detail in the Financial Implications. It also enables additional subsidies direct from energy suppliers for the more expensive measures and to assist vulnerable households. This is known as the Energy Company Obligation (ECO). Individual households will still be able to transfer energy providers without conflicting with the ECO as the ECO applies to all energy providers and the charge will remain with the property at all times until full repayment has been made.

10. The current proposal is for City of Newcastle to lead a Steering Group of Local Authority regional partners to procure a delivery partner to commence the installation of energy efficiency measures in 2013. To commence the procurement process and to meet current programme timescales, each of the partner regional Local Authority partners have been requested to formally sign a Memorandum of Understanding (MOU), attached at Appendix 1 for information. The evolving programme has been the subject of regular dialogue between City of Newcastle Council and the Department of Energy and Climate Change (DECC) and they are supportive of the approach being adopted in response to the Green Deal. In addition, Birmingham Council is a little advanced of the Newcastle programme in their response to the Green Deal, and, important learning from their approach has been incorporated within the Newcastle programme.
11. As part of the MOU, Darlington have indicatively committed to delivering energy efficiency improvements to 1,500 properties in the Borough towards the overall programme target of between 10,000 and 15,000 regionally in Phase 1. To help support the delivery and funding of the improvements, City of Newcastle Council applied for European funding (Intelligent Energy Europe, IEE) of £1.108M which indicatively has been approved. The IEE is identified to part cover the start up costs of the programme. Should the programme not deliver at least 10,000 properties (£23.719M of investment) regionally, there is the risk of the European funding being “clawed back” and the MOU requests that partner regional Local Authorities share this risk. The details of this arrangement will be outlined in the Financial Implications.
12. Warm Up North programme is available to all housing tenures (including social housing) and public owned buildings. It cannot be extended to commercial premises because of legal constraints. Darlington is canvassing its Registered Provider partners to see if they would like their housing stock to be considered as part of the programme. The basis on which Registered Provider partners become part of the programme, are prioritised, and, benefit from the installation of energy efficiency measures, are yet to be determined. There is a clear strategic benefit to Darlington Council to encourage investment in all housing stock in the Borough to improve health, well being and housing standards, as well as providing an opportunity to increase or accelerate the volume of properties included in the programme to mitigate any clawback risks from the Intelligent Energy Europe (IEE) European funding. To date, Four Housing Group, Railway Housing Association, Places for People and Home Group are four Registered Providers with housing stock in Darlington who have expressed an interest in the programme.

Financial Implications

13. Cabinet approved on 6th December 2011 the release of £50k of funding to support the start up costs of the programme. This is based upon estimated total start up costs of £1.519M less £1.108M of IEE less £211k City of Newcastle LA and equal funding by each of the remaining Local Authority partners on the residual sum required (that is £200k divided by 4 LA partners = £50k). Payment of this £50k instalment is required in 2012-2013. It is intended that these costs will be recoverable from the project, either as a payment from the Green Deal Provider (GDP), or through the margin on the loans to the GDP.

14. The in principle approval to release £5M of Prudential Borrowing to cover the upfront costs of installing energy efficiency improvements to residential and other public buildings in Darlington is based upon estimates. The true value of these improvement works will be dependent upon the level of “take up” and the nature and scale of any planned improvement works. Darlington would seek to recover these costs over a 25 year period through the Energy Company Obligation (ECO) via the property’s electricity bill. Traditional non-payment rates for electricity bills are circa 2%, the programme provides for non-payment rates of up to 4% and each Local Authority partner will be responsible for their non-payment rates should outstanding payments be deemed unrecoverable.
15. City of Newcastle Council indicatively secured £1.108M of European funding subject to formally agreeing a “clawback” arrangement through the MOU for not achieving a minimum 10,000 properties (£23.719M investment) across the North East Region. The MOU states that the clawback liability would be apportioned on the following basis, 50% (£554,000) City of Newcastle, the remaining 50% being equally allocated to each of the four other Regional Local Authority partners being Darlington, Durham, South Tyneside and Northumberland (a maximum funding liability of £138,500 for Darlington, but, reducing on a proportional basis based on property numbers completed). Should other Regional Local Authorities join the partnership at a later date, then this would proportionally reduce Darlington’s potential clawback liability.
16. City of Newcastle Council procured external legal and financial support to undertake a detailed financial review of the business case for the programme. This supplements internal capacity and resource which will collectively inform the Financial Model, proposed programme details and the procurement of a delivery partner. The 10,000 property (£23.719M investment) targets will be appropriately and robustly risk managed by collecting and analysing building technical data to inform the Golden Rule assessment, and, by engaging with other Registered Housing Providers and owners of public buildings to increase or accelerate the volume “take up” for the programme. Registered Providers have been invited to indicate how they may also financially contribute to the programme and share some of the financial risk of clawback. Responses from Registered Providers are expected by April 2012 and, in advance of the procurement process. The Council already hold detailed stock information about the 5,500 Local Authority retained properties which will help inform the targeting of the programme.

Risk Analysis

17. The immediate target for Darlington is to meet its commitment to the programme to deliver energy efficiency improvements to at least 1,500 properties in Darlington. This will be achieved by utilising existing data from Registered Providers, capturing data from our Asset Management database for Local Authority housing, encouraging public sector partners to consider their properties into the programme and actively marketing the programme to the privately owned housing sector.
18. The Warm Up North offer should be attractive and provide the required comfort for individual referred properties to pay in full for the installed measures through identified electricity savings over a 25 year period. In essence, the customer will continue to pay their electricity bills as usual and these should not exceed what they are paying for electricity prior to the installation, but, at the same time they will benefit from the additional thermal comfort achieved through the installed measures.

19. The last Privately Rented Stock Condition survey for Darlington identified 28% of the 40,180 privately owned properties aged pre 1919 (the largest proportion in the Tees Valley sub-region). Of these 40,180 privately owned properties 16.6% are failing current “thermal comfort” levels, again the highest proportion in the Tees Valley sub-region. The comfort of this data and the volume of properties identified within the private sector should be able to generate demand for the programme 4 times greater than the local target. This would also enable the local target volume of properties to be accelerated should any one of the current 4 Local Authority partners in the programme be unable to meet their local targets, and, thus the programme achieve its collective target of between 10,000-15,000 properties across the whole programme. Achieving the programme target of between 10,000 – 15,000 properties will remove all potential clawback liability of the IEE (European grant).
20. In addition, broadening the Warm Up North programme offer to social housing including both Local Authority and Registered Provider properties should further increase the volume of demand alongside the option to incorporate other public buildings in the programme. The Council will be able to determine quickly which properties could benefit from installed measures through their asset management database and influence when and how many come forward through this programme. Further data and local information is being gathered through engagement with Registered Providers to help provide greater certainty on the nature and scope of installed works required and the estimated savings and affordability for individual households. Accurate technical data will inform programme targeting and marketing activity and provide greater certainty in respect of achieving the “Golden Rule” eligibility criteria.

Outcome of Consultation

21. Registered Providers operating, and, with housing stock in Darlington having expressed an interest in the programme, have been contacted to determine the nature and scale of their interest. It is anticipated that this information will be available by April 2012 prior to the commencement of the procurement process.
22. No active marketing has commenced with private owners of property yet but, given the large potential savings in energy costs over time, the age and quality of the local privately owned housing stock and the improvements in thermal comfort levels, interest is expected to be high.
23. Owners of other public buildings in Darlington need to be canvassed to determine the level of interest and scope of improvement works which could be required. This will be complete by April 2012 in advance of the procurement process.
24. A Marketing Day is scheduled to be held in Newcastle on 25th April 2012 inviting prospective delivery partners to attend and inviting interest in the programme and submission of “Expressions of Interest” in the programme in advance of the formal detailed tendering process. All Local Authority partners are expected to be in attendance to support the event and answer any questions specific to their localities.