HARINGEY 40:20

CARBON Commission

Low Carbon Investment Working Group: March 2012

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CARBON Commission

1.0 Summary of key issues for Carbon Commission to consider

1) Haringey has set itself a very ambitious target and we need radical policies if we are to deliver. To achieve it the council needs to simultaneously pursue widespread retrofit of social and private home and also expand the role of decentralised energy.

2) On an optimistic take up of the energy efficiency measures and decentralised energy opportunities that have been identified so far there is a gap of around 14% to achieve the 40% target from the domestic sector.

3) Decentralised energy schemes identified so far could lead to additional 1% CO_2 saving however there is likely to be a requirement for gap funding.

4) Central Government is setting up several low carbon policies in particular decarbonising the grid and the Green Deal / ECO subsidy. But these will not by themselves deliver the 40 percent reduction in Haringey's emissions by 2020. Over the next few months we need to decide how we engage with the Green Deal. There are good things in it such as the assessment framework, certification of installer and the extended warranties offered on products and workmanship. The suitability of Green Deal finances is less clear cut. The Council should not rely on the Green Deal either being a success or not being suitable to every one. The Council will need to intervene to help local residents to decarbonise and especially to ensure it has a strategy to maximise the take-up of the ECO subsidy by local residents and small businesses.

5) The industry led consortium Green Deal Finance Company is investigating the provision of finance to green deal providers The high cost of finance at 6-8% currently being discussed is likely to be a significant barrier to the take up of the Green Deal, requiring national level policy to make it more compelling. This could be through a subsidised reduction in interest rate through a guarantee fund (to reduce risks to private sector funder) or Government subsidy based on the KfW German example (compensated by higher taxes from induced employment).

6) Cheaper sources of capital (e.g. EIB, pension funds) will not be prepared to bear all the risks. This means the Council is likely to need to consider taking on some of the risks either on its own balance sheet, through a joint venture or other finance vehicle. There is likely to be a need for additional funding for pre-feasibility work to development of a business case to enable schemes to go forward.

7) There is some tension in working with third parties. The first is cherry-picking – third parties will wish to fund schemes that make an attractive return on investment, The Council might wish to package such schemes with other less profitable schemes, cross-subsidising one project with another. This is particularly an issue in DE schemes.

8) There is a trade off between establishing a finance vehicle in such a way that the public sector could re-finance its investment at a later stage if desired and enabling long term control over social outcomes such as maintaining lower fuel prices.

9) The Group is divided on whether the Council should become a Green Deal provider (taking on marketing and delivery roles) or producer (a marketing role). Key issues are the cost of capital, the need for clarity over what the Green Deal market will offer and to which sections of Haringey's homes, support for local SMEs, and reputational risks if the Council is seen as too closely aligned to private sector Green Deal Providers (more detail is provided in Appendix D).

10) In terms of the finance structures, four models were considered. Each has advantages and disadvantages dependant on the type of low carbon scheme being developed (e.g. solar PV, Green Deal private homes & Green Deal social homes, DH). Below is our view of the models most worthy of consideration by the Council if it is to make rapid progress in delivering reductions in carbon, address fuel poverty and stimulate local economic activity. It seeks to simultaneously minimise the cost of finance (interest rate) and maximise local control. It does mean the Council needs to accept a degree of risk and invest in internal staff resources to adequately decide and manage the new contracts and ways of working.

   i. Early progress should be made by applying Green Deal finance to the Homes for Haringey housing stock with the Council raising finance through the "corporate finance model" or "purchase of receivables", depending on which provides better value or money. In either case Haringey should become the Green Deal provider in order to retain maximum control and ensure fuel poverty and local economic development objectives are fully realised.

   ii. The "purchase of receivables model" through national Green Deal Providers is the best option for owner-occupiers. However owner-occupiers should be free to utilise services & finance from the Haringey GDP described above.

   iii. The "project finance" model be used for standalone CHP system and also for a PV programme (should this prove cost-effective under the new FIT tariffs). The "ESCO model" should be used for complex DH systems where the ESCO not only secures finance and construction of the scheme but also operates the system and retails energy services.

11) Stimulating demand for housing retrofit

   i. The Council needs to ensure the borough maximises take up of nationally financed schemes such as the affordable warmth and carbon saving elements of the Energy Company Obligation. The Council can play a key role in ensuring the ECO and Green Deal work hand in hand to secure ECO funding for the borough.

ii. Homes for Haringey owns a high proportion of homes in the borough and should be an early priority of the Council. Private occupiers should be enabled to benefit from any low cost finance the Council arranges.

iii. Some owner occupiers might prefer to use their own source of finance but should be enabled to take advantage of the other attractive elements of the Green Deal such as increased consumer protection.

iv. In the short term Haringey's active community sector has an excellent track record working with the Council on energy projects and door knocking by trusted intermediaries is likely to be one of the most effective ways of driving demand. Funding will be required for paid volunteer coordinators and awareness raising events, communications and demonstration homes. Supportive planning policy will also help to remove barriers and drive demand.

v. In the medium term it is likely that in addition to existing policy drivers, some kind of auto enrolment or opt out measure will be required at a national or regional level to achieve carbon targets.

12) Driving development of decentralised energy networks

i. A number of concurrent measures will be required to work in tandem, to provide gap funding for DE schemes through planning contributions and extend DE networks beyond new developments

13) Enabling measures at a national and regional level

ii. National government will need to subsidise the Green Deal to make this an attractive proposition for residents.

iii. National government should make energy efficiency and distributed energy a high priority for the Green Investment Bank.

iv. Joint working across neighbouring boroughs has the potential to reduce set up costs, spread risk and benefit from economies of scale. This is currently being explored for the Green Deal (with LB Islington) and economic development of the Upper Lee Valley. At present cross borough working is ad hoc – does the Commission view this as needing to be strengthened?

2.0 Introduction

Haringey has agreed the radical ambition to reduce its carbon emissions from their 1990 levels by 40 percent by 2020. Of the Borough's 1.035 $MtCO_2$ emissions in 2008 just over half was from households' use of heat and power. Not only is Haringey's target more ambitious than national Government's to reduce UK emissions by 32 percent, it is likely to be more difficult to achieve given Haringey's stock of older properties, often in conservation areas. Haringey has no option but to dramatically reduce the use of energy by households and to switch to lower carbon sources of energy like combined heat and power.

The Government is establishing the Green Deal and ECO framework to encourage homeowners and small businesses to access finance to undertake cost effective investment in energy efficiency and limited amounts of grant funding for solid wall insulation and fuel poor households. We have to work within this framework – but it is unlikely to give rise to either the scale or speed of investment needed.

In the longer term the 2050 targets to decarbonise buildings entirely is likely to require movement to a low carbon source of heat. This is likely to be communally provided rather than through individual boilers. The Council working with the GLA and neighbouring boroughs needs to consider options to roll-out new district heating networks across the borough.

There are some big strategic decisions the Carbon Commission needs to consider.

How should Haringey drive up demand for energy efficiency, working through community groups, introducing local incentives or requirements, developing local training and work opportunities in the installation sector?

Access to competitively priced capital to invest in buildings and networks is an essential, but not sufficient, prerequisite to decarbonising Haringey. Haringey has access to cheap capital but cannot finance the programme entirely. There are a number of strategic choices about the stance Haringey should take towards the emerging Green Deal providers and how Haringey should complement or offer to replace some or all of the functions that are provided.

3.0 Haringey's investment needs to meet its 40:20 targets

3.1 Scope of the Low Carbon Investment Working Group

An initial carbon reduction scenario for Haringey estimates that around £500m investment is needed largely to retrofit buildings and develop new energy infrastructure for heat and power. The working group was tasked with advising the commission on the role the Council should play in driving forward this investment, and advising on the financial models that could be applied in the short, medium and long-term, giving consideration also to the Council's wider social and economic objectives.

The working group has considered the approach the Council should adopt for four different sectors (outlined below). These sectors have different profiles in terms of investment need, degree and style of influence exerted the Council and risk – reward profiles. The scope did not include efficiency improvements to private commercial buildings as there is insufficient data available and neither did it include transport infrastructure improvements as these require different types of funding model and are largely outside the control of the Council.

1. Owner-occupiers and private landlords: of Haringey's 97,000 dwellings, private landlords own 23,000 homes and there are 45,000 owner-occupied homes.
2. Social landlords: these own the remaining 27,000 homes - the majority through the Council's Homes for Haringey (21,000 homes)
3. Decentralised energy networks
4. Solar PV on council estate (and other public sector buildings)

We do not make recommendations about solar PV in this document. In July 2011 the Council committed £8 million to a solar PV programme from prudential borrowing based on the prevailing level of feed-in tariff and a roof rental scheme worth up to a further £8m. Since then government has reduced the subsidy and introduced additional conditions. That said, the costs of PV modules has also fallen dramatically and there may still be opportunities for profitable installation of PV on Council owned buildings.

The working group were conscious that the Council has broader goals outside of carbon reduction, and that national government is itself changing the framework by which household energy efficiency is supported. In particular the investment programme needed to simultaneously address Haringey's fuel poverty & economic development objectives. We therefore needed to work within existing national policies especially Green Deal/ECO and renewable energy support schemes, <u>but also to influence and lobby</u> national government.

3.2 Potential to reduce emissions

3.2.1 Domestic energy efficiency

Consultants (Camco) were commissioned to assess the technical potential for energy efficiency measures and level of CO_2 reduction that could be achieved cost effectively under a Green Deal mechanism, assuming a 7% Internal Rate of Return. The work took into account available data on energy efficiency measures that have already been installed (such as from Decent Homes work and energy supplier obligations) and property archetypes to provide a maximum potential of CO_2 saving.

The research found that a 39% reduction in CO_2 emissions from the residential stock (including social and private homes) is technically possible with advanced measures but would require a level of public subsidy. Only a 28% CO_2 reduction is financially viable under the Green Deal's golden rule (see Annex 2 for explanation).

There are a number of roles the Council could take in relation to the Green Deal:

- No active role in the Green Deal;
- Green Deal Provider for Social Housing plus ECO/fuel poverty focus, drawing on relatively low-cost finance e.g EIB;
- Promotion of borough-wide home energy efficiency including potentially running a home energy assessment service and advising both Able to Pay households and potential Green Deal households;
- Large-scale Green Deal Provider in partnership with a private sector operator or operators, competing with the rest of the market;
- Large-scale independent Green Deal provider competing with the rest of the market.

Based on a development of a part Local Authority funded Special Purpose Vehicle proposed by CAMCO and an optimistic take up of measures, a 25% CO_2 saving could be achieved at an investment cost of (approx £150m). This included uptake of optimised and to a lesser extent, advanced packages assumed to be funded by the ECO or another source such as householder contributions.

With the withdrawal of CERT and CESP energy companies are no longer required to market and install energy efficiency measures. Instead take-up of measures will be driven by home owners' voluntary actions and marketing by Green Deal providers.

Research shows that only a small proportion (circa 3%) of people will consider utilising the Green Deal at a 7% interest rate, with a 20 year period and on a loan of £4000[1]. Non-financial impediments to take-up include: hassle, lack of confidence in the performance of technologies, heritage/conservation restrictions (real and perceived), distrust of installers, and absence of suitable trigger points. Any investment programme needs to address these to achieve widespread take up. Local authorities are potentially in a good position to maximise opportunities from trigger points and to ensure planning systems are not a barrier to take up; they are also a trusted brand. The gap of 15% to achieve the domestic sector's share of the 40% CO_2 reduction target represents both the limitations on Green Deal policy and the requirement for further measures such as district heating and behaviour change to achieve the target.

The optimistic scenario assumes the following CO_2 reductions:

1. 7% reduction from grid decarbonisation
2. 1.5% reduction from solar PV on domestic stock
3. 5% reduction from the Green Deal in private homes (20% uptake of dwellings with high or medium potential and 10% for advanced packages)
4. 6% reduction from the Green Deal in social housing (50% take up of optimised packages from dwellings with high or medium green deal potential and 20% uptake of advanced packages)
5. 4.5% reduction form loft and cavity wall insulation (properties not receiving optimised or advanced packages)
6. 0.7% reduction from ground source heat pumps across residential stock

[1] EST / DECC commissioned study which showed take-up rates under different design options DEP2010-1233.ppt

NB: The group felt that there is significant potential from the Able to Pay sector to fund measures themselves, therefore No 5 could be greater than currently estimated.

3.2.2 Decentralised energy (DE)

Distributed energy systems where heat and power is generated in combination has the opportunity to reduced emissions by around 30 percent when gas is used as a fuel. Reductions are even greater when biogas is mixed in, or renewable sources of heat are mixed in. In the longer term, and working through the GLA there is scope using decentralised production of energy and ultimately renewable energy in many locations but the costs and financial models will often depend on the circumstances of the project.

Detailed feasibility studies have been carried out for two DE hubs in Haringey (Broadwater Farm and Hornsey Town Hall) and further feasibility studies are in the process of being carried out for several other schemes in the borough. The total estimated capital cost of schemes is £13.8m. Many DE schemes require a level of public subsidy. In future this could from Section 106/ Community Infrastructure Levy or Renewable Heat Incentive. Larger scale schemes are more cost effective to run and Haringey is currently exploring the opportunities below as part of a larger network covering Enfield and Waltham Forest that could utilise waste heat from waste processing facilities.

The schemes identified so far would deliver a further 1% CO_2 reduction from the domestic sector (approximately 0.5 percent reduction in borough wide emissions, equal to 4,752 tonnes per annum CO_2), highlighting how critical the Green Deal and behaviour change will be to attaining the 40% CO2 reduction.

Table 1: Decentralised energy schemes

Scheme	Approx Timescale	Proposed Technology	Carbon Savings (tCO2 p.a.)	Capital Cost (£m)
Broadwater Farm	>2 years	Biomass Boiler	613	0.4
Northumberland Park	>5 years	CHP	193	1.4
Tottenham Town Hall/ Tottenham Green Centre/ Ashley Road	>5 years	CHP	846	1.6
Lawrence Rd/ St Ann's Hospital	>8 years	CHP	TBC	TBC
Hale Village	Installed	CHP		
Wood Green North	TBI	CHP	438	2.5
Wood Green East	TBI	CHP	433	2.1
Haringey Heartlands	TBI	CHP	1167	1.3
Hornsey High Street	>2 years	CHP	896	3.3

3.2.3 Commercial solar photovoltaic and efficiency measures

Feasibility for solar PV on private commercial buildings is unknown; however Haringey has a high proportion of SME and micro businesses and relatively few large commercial properties in the borough. The large number of SME properties could be expected to benefit from the Green Deal.

3.3 Sources of Finance

The investment need for low carbon measures at approx £500m (based on Carbon Scenario modelling in 2009) is beyond the Council's own means; in addition it is likely that the Council would look to retain a degree of balance in terms of the risk and responsibility it has for different functions (such as children's and adult services and frontline services including waste and enforcement). This means the council needs to consider how it can leverage investment from the private sector. It may also want to use its own limited funding in such a way that it can refinance programmes once they have established a track record.

Given the recent precedent set by the Council's solar PV investment we might expect the upper limit of Council investment to be £8m per annum in low carbon schemes (up to £64m over 8 years). However the Council would likely look to spread investments and the complexity of Green Deal and DE schemes compared to Solar PV could mean there is less appetite for investment in these schemes. In addition the Council would look to remain well within the upper limit on Council prudential borrowing. The entire capital programme for the Council is currently around £37m per annum. Any capital investments would be in competition with other demands on the Council's resources such as regeneration and housing.

The table below gives an indication of the potential scale of investment required by the Council based on detailed feasibility work for housing retrofit and decentralised energy (This includes the CAMCO report for the North London Boroughs, proposing a local authority led Green Deal delivery model and Decentralised Energy networks identified thus far). The precise scale of investment would obviously vary depending on what role the Council wants to play in delivering schemes.

Table 2: Indicative scale of investment 2012-2022

Sector	Set up costs estimated 10% of total*	Share of Council investment at 50%	Private sector investment leveraged (£) 2012 -2022	ECO subsidy (hard to treat homes)**
Decentralised Energy Schemes identified so far	£140 - 200k	£7m - £10m	£7m – £10m	N/A
Housing retrofit (share of investment)***	£600k - 2.6m	£6m - £26m	£6 - £26m	£500-£2k per household
Total	£740k - 2.8m	£13m – £36m	£13m – £36m	£500k -2m

* Set up costs for housing retrofit schemes likely to be shared among a number of local authorities
**The level of ECO is estimated and not yet known
*** Based on feasibility study carried out by CAMCO for the north London Boroughs, based on SPV model

The sources of funding and likely suitability are detailed in the table below and include:

- Council's own capital resources (<£10m p/a for all council capital grant spending);
- Prudential borrowing (from Public Work Loan Board);
- Levies the Council can leverage e.g. Community Infrastructure Levy, allowable solutions, Section106 agreements;
- European Investment Bank / European Bank for Reconstruction & Development;
- Public – private (pension funds, banks, either equity partners or loans).
- Small amounts of corporate social responsibility funds from local companies; and,
- Residents and businesses (through Green Deal or co-operative funding structures).

Key funding issues include:

- Lack of funding available for pre-feasibility work to develop a business case for investment.

- High cost of finance anticipated by DECC for the Green Deal (6-8%), where as the German bank KfW bank offers tiered interest rates depending on the level of ambition of the retrofit. The rate is just 1%[2] for highly efficienct houses as a result of the Federal government subsidy. A national loan guarantee scheme could help to bring down the cost of finance.

- DE schemes do not make 12% IRR required by private sector to deliver and there is limited gap grant funding available. License Lite, could enable schemes to retail electricity (rather than selling electricity at a low cost back to the grid) but may not be viable as there is no incentive for fully regulated electricity suppliers to enter into partnership with small scale DE providers, to enable them to retail their electricity.

[2] http://www.kfw.de/kfw/en/KfW_Group/Press/Latest_News/PressArchiv/2011/20111107_54412.jsp

Table 3: Sources of finance

Source of finance /grant	Costs covered	Suitability (high/medium/low)
Council sources		
Public Works Loan Board (PWLB)	Will not fund pre-feasibility costs	(High)The Council has capacity to borrow but risks need to be carefully managed and total amount needs to be proportionate to wider function of the Council. May be more likely to invest if social and environmental benefit e.g. job creation (indicative upper limit £64m over 8 years, based on recent precedent set by solar PV scheme)
Council capital receipts funding	Will not fund pre-feasibility costs	(Low) £10m available per annum from capital receipts but this is not likely to be prioritised for carbon projects. In competition with roads, schools etc.
Section 106/CIL/Zero Carbon Allowable Solutions	Will not fund pre-feasibility costs	(Medium) Section 106 is dependent on terms of existing agreements. CIL availability is dependent on how much of the total CIL 'pot' the Council allocates to low carbon projects once the CIL scheme is agreed during 2012-13. The government is considering its position on how offsite carbon reduction will be achieved by new developments. It is due to report high level guidance as part of this spring's budget.
Core Council revenue funding	Staff time and limited funding for development costs	(Low) Limited potential to expand from core Council funds
Pension Fund	Will not fund pre-feasibility costs	(Low) Current Council policy would not allow use of this
Access to finance		
European Investment Bank	Will not fund pre-feasibility costs	(Med) Low interest rate (~4.5%) but minimum £20m investment required matched by partner investor. Main focus is social housing. Prefers larger transactions (~£100m)
Private banks (finance or equity)	Will not fund pre-feasibility costs	(Med) higher cost of finance (~7%) and not suited to 25 year loan period needed for Green Deal. Project finance typically maximum 15

Community owned energy	Will not fund pre-feasibility costs	(Low) Increasingly hard to source years and Haringey company, EN10ERGY has Corporate finance easier to source due to found it difficult to raise finance for projects lower risk exposure to the bank. so far. However there are some successful
London Green Fund (finance) minimum £1m 7% IRR	Will not fund pre-feasibility costs without certainty of investment	(Med) May be suitable for social housing stock but not be competitive with PWLB
Green Investment Bank	Details forthcoming	(Low) Likely to be geared to large scale examples, e.g. Bath West Community Energy. schemes but political signals that GIB may
		fund the early stages of Green Deal through an aggregator (e.g. Green Deal Finance Company) or similar.
Green Deal finance company	Details forthcoming	(Med) Likely that cost of finance is higher than PWLB but will lend to local authorities. Main finance model is to purchase receivables contracts, potentially avoiding the need for refinance an LA-developed portfolio.
Grant/incentive		
Feed In Tariff	Payment based on metered generation and export of electricity	(Med) Lower rate of FIT has been introduced means in the short term some schemes are now not viable. Lower tariff for portfolios greater than 25 properties. Minimum EPC rating proposed.
Renewable Heat Incentive	Annual payment. Includes compensation for 'hassle factors'. Policy intended to cover marginal cost above standard gas boiler.	(Med) Biomass more difficult in an urban context but could be important for supporting transition from gas CHP to renewable heat in district heating systems. Eligibility of domestic installations currently not defined (due to be launched with Green Deal)
DEPDU -decentralised energy	Some feasibility work	(High) Already supporting Haringey schemes
IEE, ELENA, EEF, ERDF	Varies	(Med) Time consuming/competitive to access and difficult to make compatible
Corporate Social Responsibility	Varies	(Low) Small amounts of funding likely to be available (recent example £5k from British Gas)
Other sources		
Energy Services Contracting (ESCO)	pre-feasibility costs can be wrapped into procurement exercises (e.g. NHS carbon and energy fund)	(Med) high rate of return on investment means likely to require some level of public subsidy in order to deliver some of the projects listed.

4.0 The role that the council can play, *pros* and *cons* of the options

This section considers the options for driving low carbon investment and makes recommendations for the role Haringey can play. We first discuss the funding models and their suitability for the different sectors, then we go on to discuss the other enabling measures the Council can take to drive up the level of investment in domestic energy efficiency measures especially working with voluntary organisations within Haringey or using its regulatory powers. The section concludes with options to drive up decentralised energy adoption.

4.1 Finance structures

In addition to considering the potential sources of capital and the range of revenue streams, the working group has evaluated four typical financing structures as set out below. Each has been summarised through a diagram setting out how it works, the indicative terms, pros and cons. We have also indicated the most suitable application of each structure in order to guide the Carbon Commission. Given the constraints on Haringey's capital budgets, it is proposed that the council adopts the following principals:

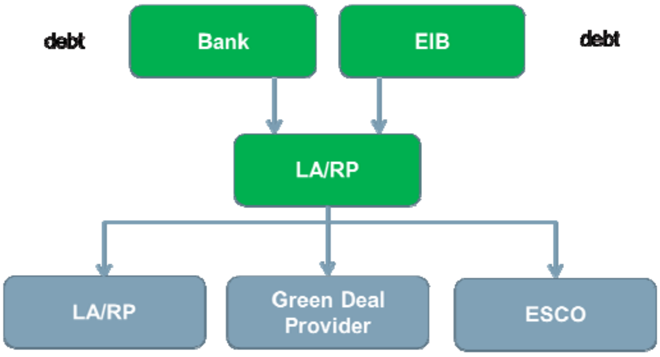
1. If a third party is prepared to fund a project on competitive terms then this should be the preferred approach since it reduces risk and focuses limited council resources on where they are most needed. However, in some instances the Council may wish to fund the investment itself as with the recent £8 solar PV in order to create a source of revenue for feasibility works. An alternative approach would therefore be to look at the entire portfolio of investment required and develop a strategic approach to avoid the private sector "cherry picking" the most profitable investments and leaving other projects undelivered.

2. If a project is viable but requires local authority involvement in order to attract additional third party finance (e.g. to reduce a bank's perceptions of or exposure to risk) then Haringey's investment should be used to leverage additional funding.

3. If a project is viable but it cannot be funded by third parties, either in whole or in part, then Haringey should use its own resources to invest (including through prudential borrowing)

4. If a project is not viable then it shouldn't be funded

Finance Structure 1: Corporate finance



Most suited to investment in LA/RP's own housing stock including through Green Deal

How it works
Debt from a range of sources including PWLB, LEEF, THFC, EIB, GDFC, Bank, Bonds
Flexible investment structure

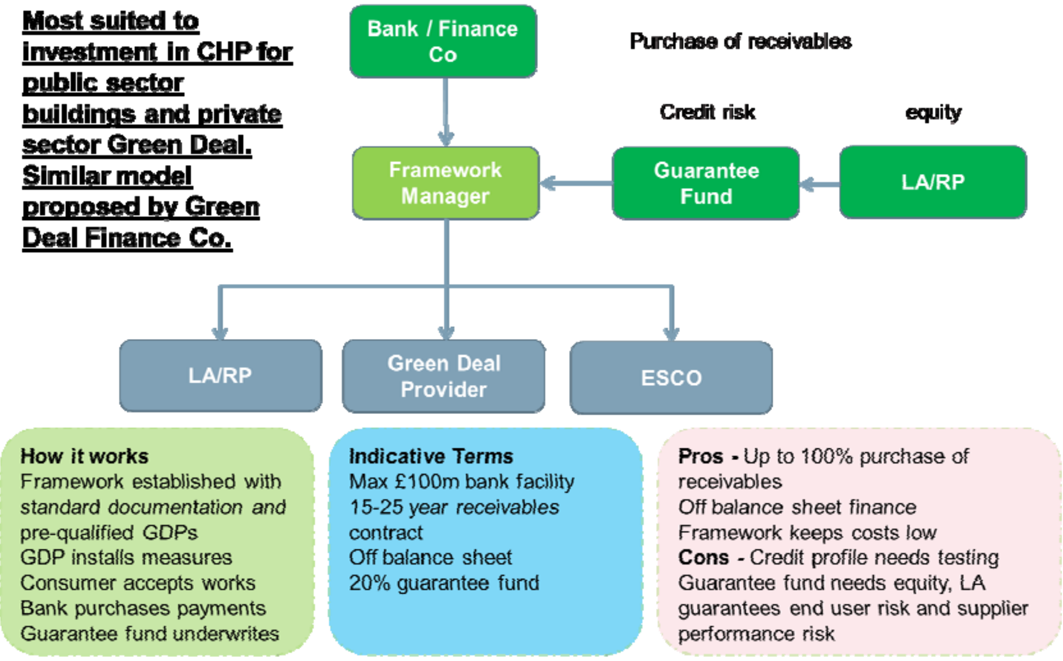
Indicative Terms
£25m minimum EIB loan
50% maximum EIB funding
10-25 years loan term

Pros
Low cost, low rates, simple

Cons
On balance sheet
Limited scalability
Full recourse

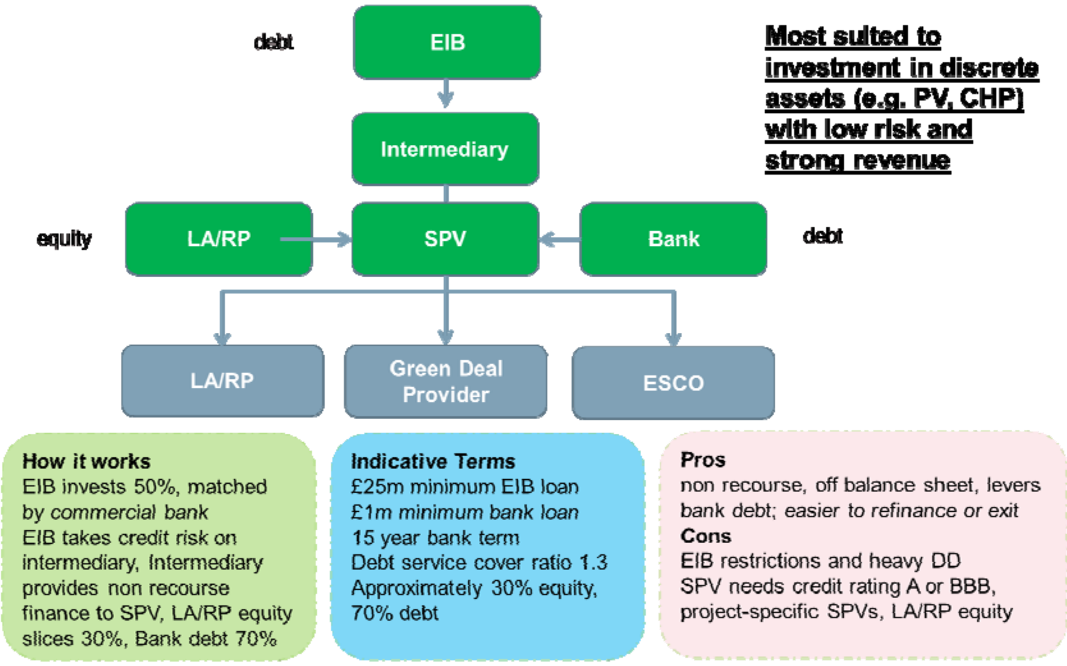
Corporate finance is the default option for investment in an LA or Registered Provider's (RP's) own stock. Sources of funding could include Public Work Loan Board (PWLB), European Investment Bank (EIB), London Energy Efficiency Fund (LEEF) and bonds. This gives access to low cost, long term money but the LA and provides the lender with maximum comfort because credit risk resides with the LA/RP. This would work well for Green Deal investment in LA / RP housing stock particularly where the LA / RP is acting as Green Deal Provider, managing risks and providing top-up funding from its own stock maintenance budgets. The council would recover the costs of interest by increasing the rents (if energy is charged as part of rent costs). If these meet the golden rule then the reduction in cost of energy will cover the higher rent cost.

Finance Structure 2: Purchase of Receivables



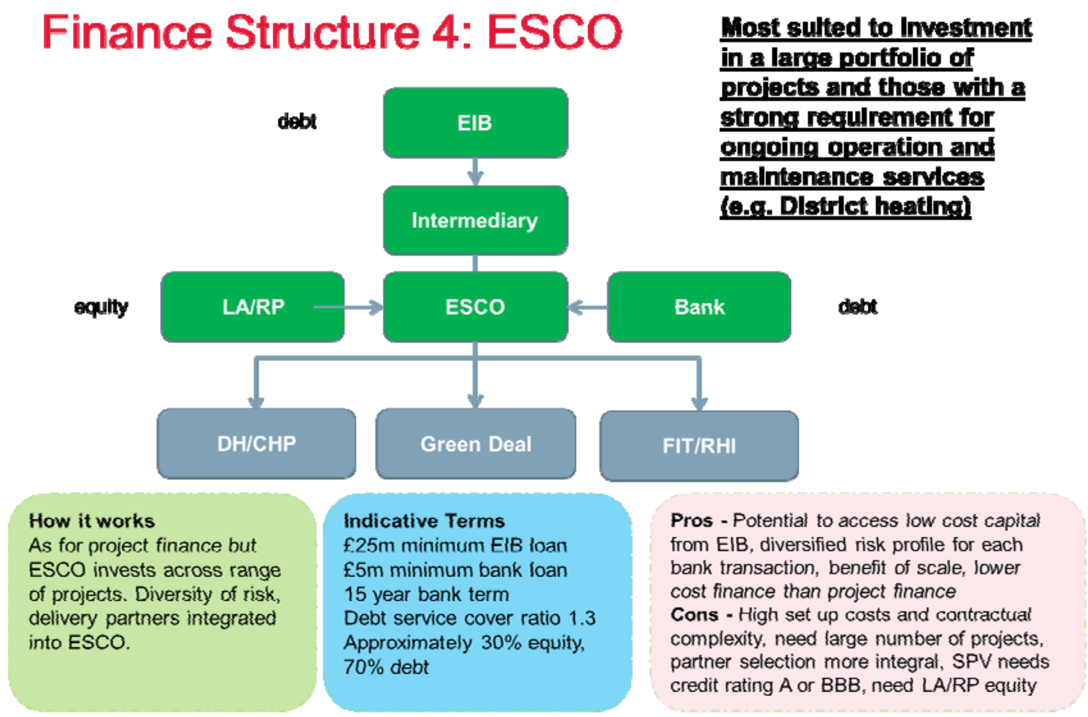
In the purchase of receivables model the ‘receivables’ is the income stream of green deal payments that the Green Deal Provider (GDP) passes onto the bank / finance company. In the diagram above a ‘guarantee fund’ has been set up to insulate the banks from certain types of risk. This means that the bank has lower risk and will offer finance more cheaply. This form has been used by the NHS Carbon and Energy Fund and has been proven to work for CHP projects. In this case the NHS heat and power purchase agreement is strong and the bank takes comfort from the underlying credit risk of the public sector even though its contract is with the ESCo. The Green Deal Finance Company is proposing a similar model, so that the investment sits ‘off balance sheet’ from the Green Deal Provider and the owner of the building. This removes refinancing risk from the Green Deal Provider and is therefore an attractive model.

Finance Structure 3: Project finance model



This model works well where the revenues are strong and the underlying project risks are low, such that the bank can provide non-recourse project finance. PV and CHP have been funded in this basis. In the diagram above banks, local authority and the European Investment Bank (EIB) (working through a finance company) supplies finance to a free standing special purpose vehicle that builds (and might also operate) the scheme. The debt sits on the balance sheet of the SPV.

The application to Green Deal is less certain, given the large number of project risks that are yet to be resolved. Early indications from potential Green Deal Providers suggest that whilst they might be keen to establish joint ventures with LAs to co-market Green Deal services, they would not be prepared to carry refinancing risks; hence this model appears less favourable than Finance Structure 2. However, this model should still be considered for joint ventures where public and private sector equity sits together and/or where the technology risks are well understood, such as PV.



Where there is a greater requirement for on-going service provision to heat and power customers including operation and maintenance of infrastructure (such as district heating) then the role of the delivery partner becomes particularly important. In this instance a broader public/private Energy Services Company (ESCo) can work well. The ESCO not only builds and operates the project is also provides retail energy services directly billing the client – often for providing energy services such as maintaining a commercial or leisure building at a comfortable temperature.

Finance will be similar to Project Finance but each project SPV sits beneath a separate holding company (the ESCo). The ESCo actively manages a portfolio of projects and services with bank debt introduced at the top level and potentially at the project level, too. The purpose of the ESCo is to diversify risk across the portfolio and achieve some benefits of scale. This would be most appropriate if Haringey wanted to establish a portfolio of energy projects through an arms-length company and is particularly suited to large scale, long term infrastructure such as district heating.

4.1.1 Summary of finance structure

In summary, then, for refurbishment of Homes for Haringey stock, the preferred approach should be corporate finance or use of the Green Deal Finance Company through a Purchase of Receivables model if this offers better value for money. If the Green Deal Finance Company is not viable alternative sources might be PWLB or EIB. Corporate finance is the most hands-on model with the greatest risk and reward. Because Haringey would be investing directly in the project it can direct resources to the area of greatest priority and recycle revenues to achieve social outcomes such as the alleviation of fuel poverty. This same degree of control would not be possible with the other funding models. If Haringey acts as a Green Deal Provider then it can control the supply chain (and local job creation) regardless of the funding model as well as controlling the attraction of ECO funding to invest in the stock.

For private sector housing, finance through the Green Deal Finance Company appears to be the preferred approach, should it be established as planned. This wouldn't preclude Haringey from becoming a Green Deal Provider or procuring a partner to fulfil this function, with the associated control over local job creation. If the cost of capital is similar to that achieved by corporate finance then the potential to address fuel poverty is similar in both cases, however the public sector seeking a lower return on investment might be expected to pass on more benefit to residents.

For PV projects, the preferred approach should be Project Finance so long as the tariffs allow the required Internal Rate of Return (IRR). If the IRR is below that required for bank finance but greater than Haringey's own cost of capital then Corporate Finance should be used. Either model allows for local job creation so long as Haringey is funding and controlling the project. Limited control of these outcomes would still be possible with PV rent-a-roof arrangements. Since corporate finance is likely to provide the lowest cost of capital, this is likely to generate the greatest return on investment for Haringey which again, allows it to re-invest the proceeds for the alleviation of fuel poverty.

For in-building CHP units that are not intended to be linked to heat networks, the Purchase of Receivables model is preferred, followed by project finance then corporate finance. In the PoR model there is little or no control over local job creation and the ability to address fuel poverty is limited to negotiating an attractive heat tariff for the site receiving energy. The project finance option requires some investment and will deliver a return to Haringey that can be reinvested to address fuel poverty. However, bank interest rates will be relatively high and the credit approval process is likely to require the use of a well-established national supplier with strong track record and a strong balance sheet. These considerations minimise the potential to generate funds for fuel poverty and restrict the ability to control local jobs through procurement.

The corporate finance option maximises opportunities to influence both.

For large scale, long term infrastructure such as district heating, the ESCo model is most suitable. The ongoing involvement of the council in setting energy tariffs and driving network development allows good control of fuel poverty outcomes.

A Community Interest Company (CIC) to retain maximum local benefit, would only be relevant to option 3 (SPV) and option 4 (ESCo). It would probably work best with Option 4 where there is an umbrella CIC with public/private joint venture SPVs sitting beneath that with the CIC's stake held for the benefit of the community. This is similar to the Low Carbon Development Initiative (LCDI) which Renewables East, Cambridgeshire Horizons and Dacorum Borough Council established. LCDI is a CIC and is intended to set up joint ventures on a site-by-site basis but hasn't done the latter yet.

4.2 Stimulating consumer demand for energy efficiency measures and the Green Deal

The Government is introducing a suite of policies to stimulate the take-up of the Green Deal. These are set out in Annex B. Despite this, the introduction of Green Deal is widely predicted to be slow and the Council will need to act to stimulate demand if its carbon objectives are to be attained.

We know from consumer research that a small proportion of people are likely to be early adopters of the scheme. It is important to consider how to use this group to influence others. People in a more mainstream market will need to see more people around them taking up energy efficiency, particularly people with whom they identify. The key with the early adopter market is to try and get people who will have influence over friends and neighbours. These will provide a valuable opportunity to learn about how best to package and promote the scheme to a more main stream audience.

As a part of the overall Investment Working Group, a smaller subset of the group looked at consumer demand and the role of community and voluntary groups[3]. This group has drawn on council data, a survey of active community groups and the expertise of the group to consider which households are likely to take up efficiency packages.

There will also be a need for energy suppliers to fulfil stretching ECO Carbon Saving (CS) targets, with proposals for all ECO CS packages to contain at least partial solid wall installation. **The council needs to ensure the Borough maximises the take-up of nationally financed schemes such as the affordable warmth and the carbon saving elements of the Energy Company Obligation** which will subsidise the cost of measures.

Different households have different needs from the Council. We wish all households irrespective of tenure and access to capital to have the opportunity to improve the energy efficiency of their homes. Households will differ in their capacity and willingness to improve their home's energy efficiency depending on a number of variables – *are they interested in environmental issues or motivated by reduced energy costs*, their tenure – *do they own or rent their homes*, *and if they rent who from? Will they wish to use their own savings / mortgages to finance energy efficiency improvements or do they need access to externally arranged capital*? We think it makes sense to differentiate between these different segments and that the Council needs to ensure all are covered.

[3] Jessica Sherlock, Adam Parvez, Jonathan Boswell, Cara Jenkinson, Kelly Lee and Justine Prain

i. Owner-occupiers: As a significant proportion of householders (particularly in the west of the borough are both 'Able to Pay' and relatively high emitters of carbon, any Council strategy will need to address this segment as well as householders more likely to take up the Green Deal. The Camco report on the technical potential for the North London models predict take up rates of between 10% for Green Deal packages and 5% for more advanced packages of measures of the sort funded by ECO (but excluding the impact of ECO grant funding itself) Previous studies suggest that consumers are sensitive to interest rates. The cost of finance of the Green Deal is likely to be around 7% - substantially higher than people are receiving on their savings or indeed the cost of extending the mortgage if they are able to do this. Anecdotally those representing community interests also think that the anticipated 6 – 8% interest rate for Green Deal will encourage some to pay using their savings or other finance sources.

It is important therefore for the Council offer to allow for such 'wiling-to-pay' to take advantage of many of the attractive parts of the Green Deal offer like the consumer protections (for example, using accredited installers) and the ECO grants without necessarily making use of the Green deal finance.

The willingness to pay research that this is based on further suggests that whilst people express a preference for using their own funds, only 1 in 3 have the funds available (this was base on a national average and therefore may be less for Haringey). It is important that people without access to independent cheap finance can easily access the Green Deal finance if it is appropriate for them. We anticipate a range of Green Deal providers to start developing their own green deal offers by the end of the year. **We believe that the Council should ensure that owner-occupiers have the opportunity to access any low cost finance the Council arranges to fund the refurbishment of homes it owns through Homes for Haringey – which we are recommending be an important early priority.**

***ii. Rental market (including Homes for Haringey)*:** The new Consequential Improvement polices will see take advantage of the natural rate of refurbishment to help create demand. It will be vital to get people at the right stage in the planning process to really make this work.

The major push within the private rented sector is likely to come from mid way through the decade, supported by increased requirements on private landlords to upgrade F & G rated homes.

Homes for Haringey have identified the several key issues in relation to the Green Deal. These issues have been included in the Council's response to the Green Deal Consultation documents.

The key issues include:

1. The exclusion of social housing from the Affordable warmth element of the ECO subsidy.

2. While social housing can access the carbon saving element of the ECO subsidy this is limited to solid wall properties. Thus other hard to treat measures which tend to be expensive will be excluded.

3. Take up is likely to be low because there is no guarantee of the Golden rule which in turn leads to risk of default. In addition there will resident expectations of what a landlord should already be providing.

4. Potential impact on subsequent lets because new tenants will have to take up a GD loan.

5. Practical difficulties when addressing multi occupancy buildings such as blocks of flats where approval for installation of measures might require consent from each individual tenant or lease holder.

6. GD is highly complex. The National Housing Federation and others in the sector are arguing that the GD framework should be adapted to make it more effective for the social housing sector with a simplified model giving higher priority to addressing fuel poverty.

7. Homes for Haringey is dependent on the approach adopted by the Council as either provider, partner or promoter of the Green Deal.

iii. Private housing (rented and owned) – Fuel Poor: For those in the greatest need the ECO Affordable Warmth (AW) scheme will provide measures to improve the thermal comfort of homes at no cost to the household.

Only around a quarter of the £1.3 billion ECO budget is available for fuel poverty – far below the level of funding under CERT, CESP and Warm Front. We are concerned that there will not be nearly enough ECO available in Haringey to alleviate the fuel poverty particularly in the east of the borough. The council will need to consider how it will attract enough ECO into privately owned properties. A part of this consideration will be how ECO and Green Deal work hand in hand and what role the council will need to play in securing this.

The table below summarises which households are likely to respond to the policies outlined above.

	Phase 1 2012 – 2013	Phase 2 2014 - 2017	Phase 3 2018 - 2020
Policy Drivers	• Green Deal • ECO – AW* and CS* • £200m Green Deal Incentive • (CI*)	• Green Deal • ECO – AW and CS Enhanced CI • PRS* – F & G • Stamp duty/Council tax rebate incentive? • Mandatory adoption or auto enrolment	• Green Deal • ECO – AW and CS • PRS and CI • Further roll out of mandatory adoption or auto enrolment
Groups to take up	• Willing to Pay – green values • SWI S/H* • Green Deal – Early adopters • Large extensions/refurb • Fuel poor – AW • RHI/FIT – early adopters	• SWI – S/H and O/O* • Early majority – attitude • Able to pay - other • Extensions and boiler upgrades • Early adopter private landlords – other • RHI/FIT early adopters	• Early majority – privately owned • Mainstream private landlords • RHI/FIT other

***Abbreviations:** (AW) Affordable Warmth ECO, (CS) Carbon Saving ECO, (SWI) Solid Wall Insulation, (S/H) Social Housing, (CI) Consequential Improvements, (PRS) Private Rented Sector (O/O) Owner Occupier

4.2.1 Community efforts to stimulate demand

Haringey has a highly active community sector and an excellent track record of close involvement between the Council and voluntary groups to jointly deliver on energy efficiency projects. The scale and speed of the roll-out of measures is well beyond the recent experience of voluntary organisations and effort needs to be given to ensure that voluntary organisations are properly compensated for their work and the interface with the council is organised effectively. It is also important to take account of the volunteer's motivations – which might be to help with the community, concern about the environment or poverty, or a desire to be socially active and ensure these goals are respected.

Both national and local studies[4] have identified direct one-to-one engagement with households by trusted intermediaries (door-knocking) as one of the most effective ways of encouraging householder engagement in energy-saving initiatives.

Resources for door-knocking: Experience from the Muswell Hill Low Carbon Zone is that many people are reluctant to door-knock. A third said they would be more likely to volunteer to undertake door-knocking if an incentive of say £25 per street door-knocked were offered. In Kirklees hundreds of 'freelance assessors' were paid £4 for each home assessed for free loft insulation. An incentive might work well with student or unemployed volunteers.
The nature of the Green Deal delivery model is likely to affect the recruitment and enthusiasm of volunteers. If door-knockers were seen as salespeople for one major retailer or energy provider, we may find it harder to recruit.

Paid co-ordinators: Volunteers will need co-ordination by a team of paid co-ordinators. Responsibilities would include managing literature delivery, organising information evenings, as well as directing and training volunteers.

Previous projects to roll-out energy efficiency measures

The easiest way to get Green Deal take up would be to target the types of household that previous projects (e.g. RE:NEW/Low Carbon Zones pilot) have shown are most likely to take up the Green Deal – these households would be owner-occupiers, middle aged/retired, and relatively affluent and from these to reach out to a broader range of people as to potential Green Deal benefits. Haringey could also pilot approaches working with different ethnic communities. Although this will be more difficult, it would be more equitable and provide valuable learning experience.

From our experience of the Low Carbon Zone, householder engagement is much easier where there are already active community/residents groups, so this should also be taken into account. Initially a small number of pilot areas could be selected to test our analysis.
The Mayor of London/GLA have launched their RE:NEW scheme which is a pan-London area-based project to install basic energy-efficiency measures in homes. Whilst there are ambitious targets (1.2 million homes to have basic energy-efficiency measures installed by 2015) funding sources are currently unclear. If properly funded, RE:NEW could play a major role in increasing awareness of the Green Deal and generating leads.

Different households have different motivations for improving their home's energy efficiency. At the top end of the income scale, householders can be unresponsive to rising energy bills – this would characterise some households in the more wealthy Haringey wards of Highgate and Fortis Green. Furthermore, the more affluent are likely to use their own funds, rather than taking out a 6-8% Green Deal loan. We should take this into consideration when deciding on target areas for promotion of the Green Deal.

4 Haringey Low Carbon Investment Group Consumer Demand Sub Group: Working with the Community – Cara Jenkinson January 2012

We recommend the council provide resources for specific awareness raising costs. A couple are suggested below – but there is terrific scope for developing innovative means of developing commitment.

Community events: 'Green Deal Shows' would be a good way of attracting potential householders. These could involve installers, green deal providers, the Council and community groups. A launch event for the Low Carbon Zone PAYS scheme was well attended and was successful in recruiting several households.

Communication: Regular communication to residents is important – in the Low Carbon Zone, an 'In the Zone' Newsletter was circulated every quarter. It may make sense to use other people's publications e.g. resident association newsletters, local press, own-language press.

4.2.2 Use of non-financial triggers to encourage private home-owner's investment

Council's can also use other softer demonstrative or regulatory approaches to stimulate demand. The energy efficiency literature shows home owners are most likely to be influenced to take-up measures at particular trigger points, and specific policies to increase the demand for retrofit. These are during:

- Owner-occupiers - buying & selling of homes,
- Rental - change in tenant
- Major refurbishments (extensions, loft conversions & basement
- Programmed improvements e.g. for block of flats

Options for stimulating demand for retrofit

Option 1: Demonstrating role subsidising green makeovers of a number of exemplar homes and asking owners to open up homes to show retrofit real for homeowners e.g. like the Old Home, Superhome network. Haringey is already part of the Victeri network showcasing Victorian homes that have received an eco renovation.

This option's benefit is that is addresses people's lack of confidence in the technology and visualising how it would look and perform in a home like theirs. They would also obtain feedback from the owners about the hassle, inconvenience and cost of the process and feedback on the non-financial benefits (appearance, reduction in draughts, improved sound proofing). A network of around 50 across Haringey would allow different housing types & measures to be exemplified. If the average capital cost were £7,000 the cost would be £3.5 million. There would be administration costs too. Success factors: home owners need to be able to identify good, cost-effective technologies to exemplify. If their experiences are poor undermines the technology.

Option 2: Facilitating role pre-approving low carbon retrofit measures to speed up planning e.g. windows, external insulation or reducing search costs creating an approved register of builders and suppliers which have correct licenses & are members of professional bodies.

This might involve planning, sustainability and heritage officers working with conservation committees to increase awareness and obtain buy-in from conservation interests. This is most applicable in the west of Haringey where the conservation / heritage interests are more likely to constrain action.

Option 3: Incentivising role by providing incentives (e.g. £100 off council tax for 5 years) if home undertakes all improvements identified in EPC.the use of widely available subsidies (in addition to central government's ECO, RHI and FIT) will be expensive to finance if it impacts on a large number of homes.

Attitudinal research has suggested the form of subsidy matters. People prefer up-front payments rather than deferred (e.g. in a single instalment rather than smeared over many years) and paid directly to them without intermediaries e.g. reduction in Council Tax rather than a subsidy paid to the installer. A time limited payment e.g. £300 off CT for the first 100 homes to install 2 measures might be a means of increasing uptake of multiple measures.

Option 4: Mandating role – by requiring properties at trigger points to undertake all low cost measures identified in the Energy Performance Certificate through development control. This could also include an "opt out" scheme where by households are automatically enrolled to receive improvements but have the option to opt out if desired. This so-called auto-enrolment system is to be used in work place pensions through the government backed NEST scheme.

The national government is already mandating that private rental landlords install low cost measures to their properties by 2018. This option considers whether this policy could be accelerated within Haringey or applied to other sectors of the housing market triggered by specific events. A mandatory approach means that costs have to be borne by property owners with obvious political costs. Other trigger points include: major adjustments to the home that require planning permission around 250 per year (last year 39 basements, 31 loft conversions, 189 rear extensions), house sales: at present the London is experiencing a 3% rate of housing sales per year equating to around 1,500 sales a year.

Auto enrolment – it is likely that auto enrolment in schemes would need to be introduced to deliver higher levels of take-up and achieve carbon targets. Initially there may be some groups such as Homes for Haringey leaseholders or large communal blocks for whom an auto enrolment in a scheme, with the option to opt out would be relatively easy to introduce to drive demand. This could be an intermediary step between moving from incentives to mandatory measures. Auto enrolment has worked well in other industries such as pensions and health, Haringey is part of the

LEEP (Local Energy Efficiency Project) that is looking at how it could apply to energy efficiency programmes led by councils, due to report in June 2012.

4.3 Decentralised Energy: Policy for heat networks

There are a number of enabling measures Haringey can pursue to support take up of decentralised energy.

- Align planning policies with GLA London Plan heat hierarchy.
- Establish a carbon off-set fund as a repository for Allowable Solutions, Community Infrastructure Levy, Section 106 contributions & potential grants.
- Top slice for development activity – funds invested here to be re-cycled from projects once established. Additionally funding for early stage feasibility work available from GLA DEPDu prog and later stage work from Carbon Trust and other funding/delivery mechanisms such as the NHS Carbon and Energy Fund.
- Invest in capital shortfall from private investment to bridge gap for low IRR's as identified by detailed development studies.
- Establish delivery vehicle in partnership with neighbouring boroughs to develop heat main network connecting fully built nodal points to nearby existing EfW, CCGT & new major biomass generation.
- All investments to be re-cycled once projects achieve financial viability.
- Asset lock placed on surpluses (via CIC or membership model) to allow investment in network extension and/or Green Deal delivery vehicle.

Ideally all of the above measures need to be carried out in tandem. Planning policy only addresses new build, however if the Council takes a proactive role existing buildings can also benefit from the network development. The creation of a delivery vehicle with neighbouring boroughs could potentially be difficult to coordinate but has the potential to achieve economies of scales and cost efficiencies, by providing a more attractive proposition to private investors or funding partners. Constituting the delivery vehicle as a community interest company ensures local control with a lower cost base allowing marginal projects to proceed. Asset lock creates revenue stream from surpluses for re-investment in other carbon reduction activities, however if the Council wanted to re-finance its investment this would not be possible through the sale of it shareholding.

5.0 Enabling measures needed at national and regional level

The investment working group had concerns about the Council recommending the Green Deal finance mechanism to home owners in Haringey. As yet there is no certainty about the rate of interest and other terms the GDPs provide finance on. But the Government is not offering to subsidise or guarantee the loans. The Green Deal Financial Company that is being established by 16 companies interested in becoming green deal providers (like B&Q and British Gas) or providing allied business services (like PwC and Goldman Sachs) is talking about charging interest rates of around 6%[5]. This compares unfavourably with rates Haringey home owners are likely to be able to achieve if they extend their mortgage. Other commentators have misgivings about Green Deal (and ECO)[6].

We recommend Haringey align with campaign efforts to subsidise the Green Deal to make it a more attractive proposition for residents, as has been the case elsewhere in Europe[7]. This approach could offer capital subsidies, reducing the rate of interest or providing tax breaks to homes that invest in energy efficiency.

At the moment there is a high profile Energy Bill Revolution campaign asking Government to divert proceeds from carbon pricing (carbon floor price and emissions trading) into improving the household energy efficiency. This is a high profile campaign with participation from fuel poverty, consumer and environmental groups. There have also been ideas to stimulate the uptake of energy efficiency through reduction in stamp duty, regulations for minimum energy efficiency standards.

We recommend that Haringey press central Government to make energy efficiency a high priority for the Green Investment Bank (GIB). The GIB has the potential to raise finance and develop expertise in assessing distributed energy systems. These have traditionally been difficult unfamiliar to many financiers.

We also recommend that Haringey works with neighbouring north London boroughs
The Greater London Authority (GLA) is funding a project to work with London's boroughs and other stakeholders to develop business cases to maximise Green Deal delivery in London. The GLA has commissioned a consortium, led by the Energy Saving Trust (EST) and comprising Marksman Consulting LLP and Ernst & Young, to support the GLA and London boroughs to understand the options available. Haringey is working with Islington Council to develop a business case for the Green Deal Provider model. By working across two or more boroughs to deliver or facilitate uptake of the Green Deal, boroughs can potentially benefit from economies of scale as well as to spread risk and set up costs. The project will run from December 2011 to May 2012.

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[5] www.businessgreen.com/bg/news/2154738/green-deal-finance-company-looks-tap-council-cash
[6] http://www.guardian.co.uk/environment/georgemonbiot/2012/jan/13/green-deal good synthesis by Andrew Warren in
www.eeph.org.uk/FileUploads/EEPH%20Annual%20Conference_Andrew%20Warren_1320142301_13.pdf
[7] The German Government KfW provides loans at as low as 1% interest rate subsidised by the Government

Draft Short, Medium & Long term actions identified so far, requiring discussion by the Commission

Sector	Measure	Phase 1 2012 – 2013	Phase 2 2014 - 2017	Phase 3 2018 - 2020
Decentralised Energy	Policy drivers	• CIL/Allowable Solutions • RHI	• CIL/Allowable Solutions • RHI	• CIL/Allowable Solutions • RHI
	Direct Delivery	• *Further pre-feasibility work toward decentralised energy master plan*	• *Establish delivery vehicle with neighbouring boroughs with asset lock on vehicle*	•
	Investment	• *>£13m total investment need identified so far, therefore - Council could be <50%?*	•	•
	Enabling measures	• *LA supporting planning policy for the DE* • *LA Carbon Offset Fund as repository for CIL/Allowable Solutions* • *What is needed to enable cross borough working*	•	•
Housing retrofit	Policy drivers	• *Green Deal* • *ECO – AW and CS* • *£200m Green Deal Incentive* • *(CI)*	• *Green Deal* • *ECO – AW and CS Enhanced CI* • *PRS – F & G* • *Stamp duty/Council tax rebate incentive?* • *Mandatory adoption or auto enrolment*	• *Green Deal* • *ECO – AW and CS* • *PRS and CI* • *Stamp duty/Council tax rebate incentive?* • *Mandatory adoption or auto enrolment*
	Direct Delivery	• *Awareness raising, and demonstration, community groups and targeting using "trigger points"*	•	•

	Investment	• *Green Deal Provider aimed at social housing stock? (approx range £6m-26m based on SPV model)*	•	•
	Enabling measures	• *Lobby for National subsidy for Green Deal based on economic dividend* • *Lobby for GIB to provide funds for DE and GD* • *Supporting planning policy for the Green Deal* • *Cross borough working?*	• *National or regional opt out scheme for the Green Deal (mandating role)*	•

Annexes

A - The investment working group

The investment working group members:

Prashant Vaze (Chair)	Consumer Focus
Justine Prain	Marksman Consulting
Kelly Lee	British Gas
Jonathon Boswell	HiCan
Cara Jenkinson	Muswell Hill Sustainability Group En10ergy
Duncan Price	Camco
Michael King	Combined Heat & Power Association
Liz Cox	New Economics Foundation
Marc Combo	Cooperative Bank
(Jacinta Walters	Homes for Haringey)
(Jessica Sherlock	Haringey Council)
(Matthew Gaynor	Haringey Council)
(Nick Powell	Haringey Council)

B – Policies by national government to drive up demand for energy efficiency

The Green Deal is the central plank of domestic energy policy up until 2020 and a number of other policies are being designed to work hand in hand with this new mechanism and to ensure drive the demand for it.

<u>Green Deal</u>

The Green Deal is a new finance mechanism that from late 2012 will provide householders and small businesses with the upfront capital to carry out energy efficiency improvements to their properties and repay through their energy bill. The charge will be attached to the electricity meter and will remain with the property even when there are new occupants. The Green Deal will also offer some important consumer protections. These include a robust, independent assessment, certified installers, guarantees and warranties.

<u>Energy Company Obligation (ECO)</u>

The Energy Company Obligation (ECO) is the successor programme to the current energy supplier obligation programmes, CERT and CESP funded by a levy collected by energy suppliers from their customers and paid into a single pot. The ECO is likely to raise around £1.3 bn a year. It will have two separate elements to it, a carbon saving element and an affordable warmth element. The ECO Carbon Saving target will provide additional support alongside the Green Deal for hard to treat homes requiring measures which include SWI. The ECO Affordable Warmth obligation will focus on providing support to low income households, identified by their entitlement to certain means tested benefits and tax credits, who are also vulnerable to detrimental health impacts from living in cold homes. Eligibility for the Affordable Warmth obligation is currently intended to be further focused on private tenure properties where energy efficiency standards are lowest and there are fewer alternative forms of support. It is expected to only be used for low cost measures such as loft and cavity insulation.

The focus on hard to treat and hard to reach households for the ECO will make targets particularly challenging. This provides an opportunity to groups such as social housing providers or local authorities to identify and refer these types of customers to ensure the borough gets to maximise the benefit of ECO

Consequential improvements (CI)

There is proposed consequential improvements legislation under consultation from the Department of Communities and Local Government (CLG). This proposes to require those people increasing the habitable space within their homes to also improve their energy efficiency of the home. This will be done through the planning process. By 2014 this could also include those people upgrading boilers or windows. These kinds of trigger points are seen as an important and logical way to ensure energy efficiency becomes a part of home improvements and to drive demand through the home improvement market.

Private Rented Sector Requirements (PRS)

Within the Green Deal legislation there is the ability for government to introduce requirements on private landlords to upgrade F & G rated properties on request from tenants, or at the point of re-letting. Government has indicated they will look to enact this part of the legislation from 2018.

Green Deal Incentive package

Government has announced a £200m extra incentive to encourage households to take up the newly launched Green Deal offers.

C – Maps & tables showing fuel poverty, local gas & electricity consumption, conservation areas, decentralised energy heat loads & sources

Map C1: Fuel poverty data

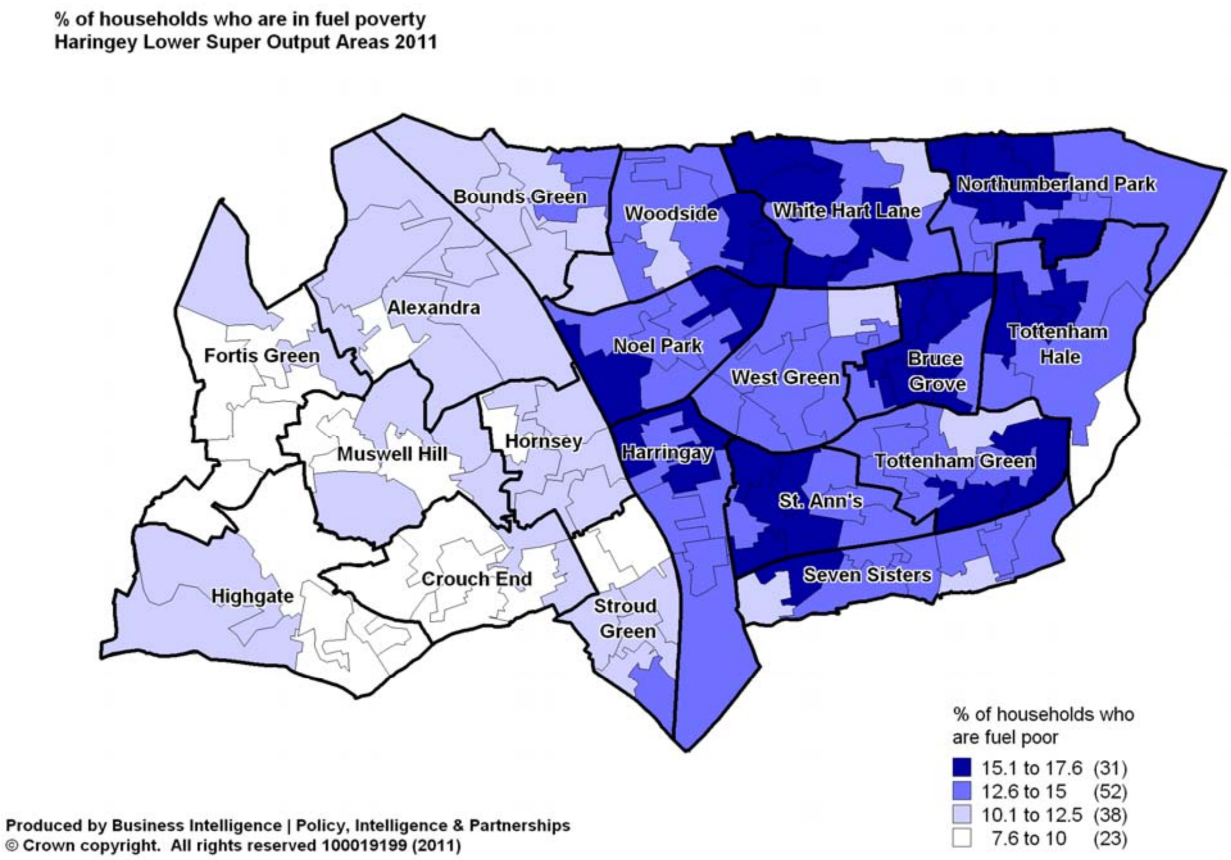
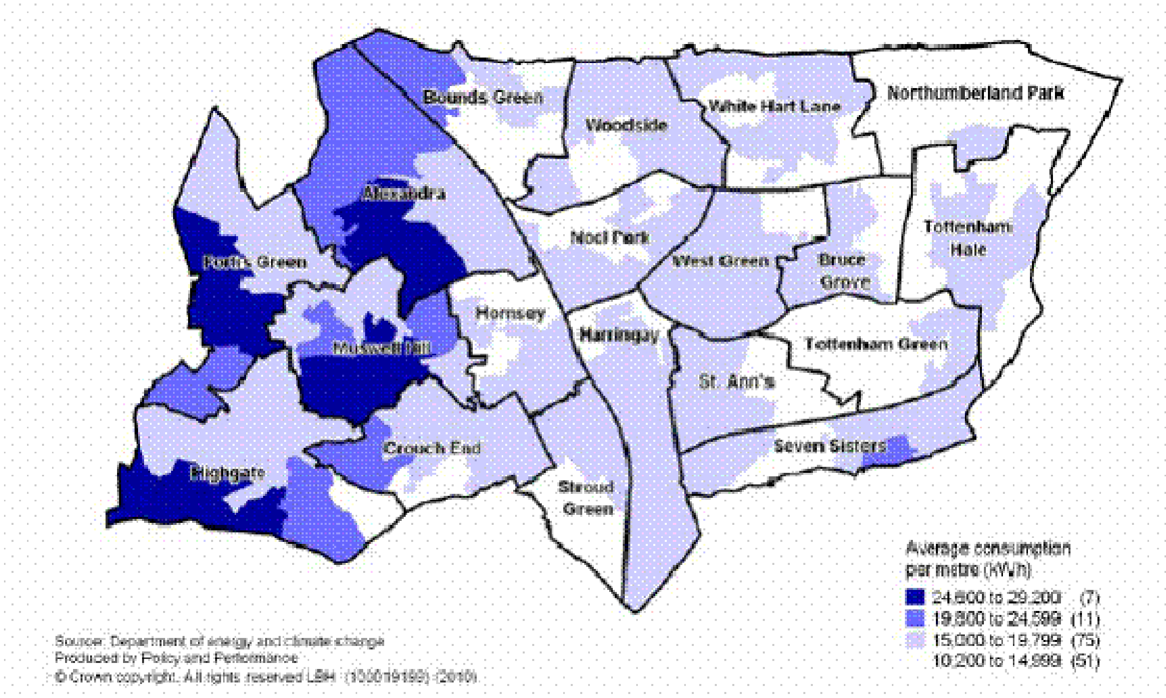


Table C1: Percentage fuel poor households

All Households	Fuel Poor Households	% Fuel Poor
93,145	13,003	14

Map C2: Local Gas & Electricity Consumption



Map C3: Conservation Areas

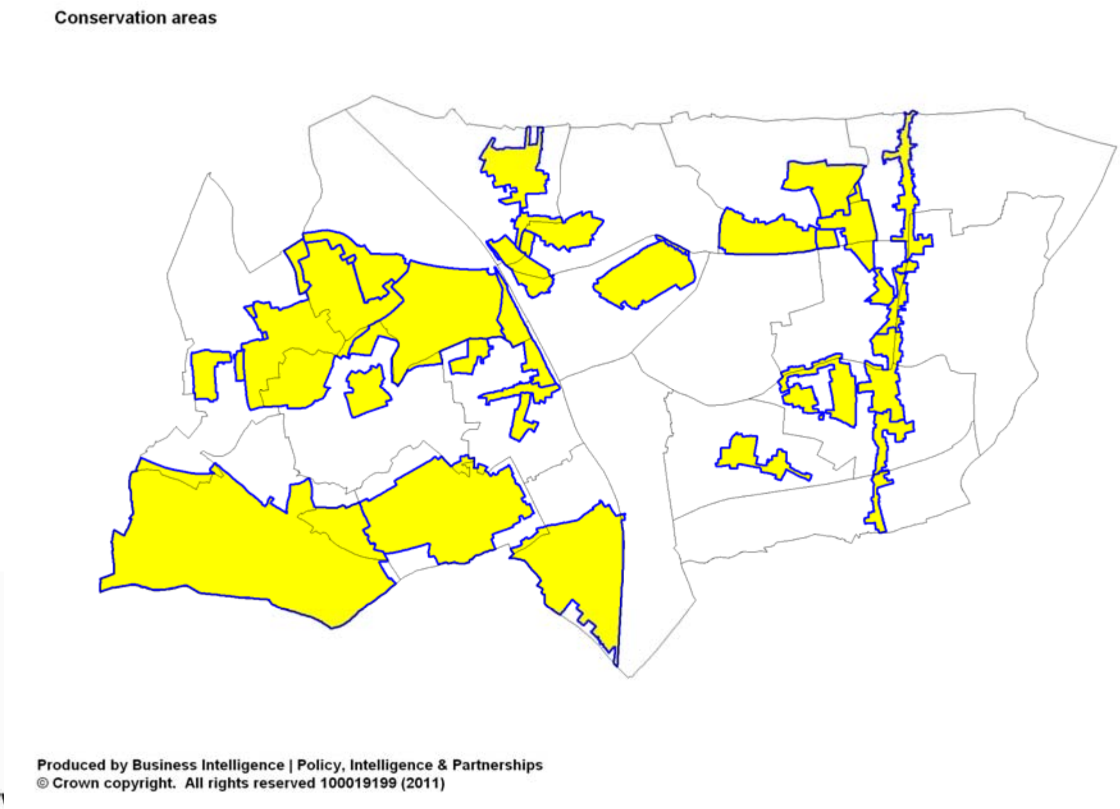
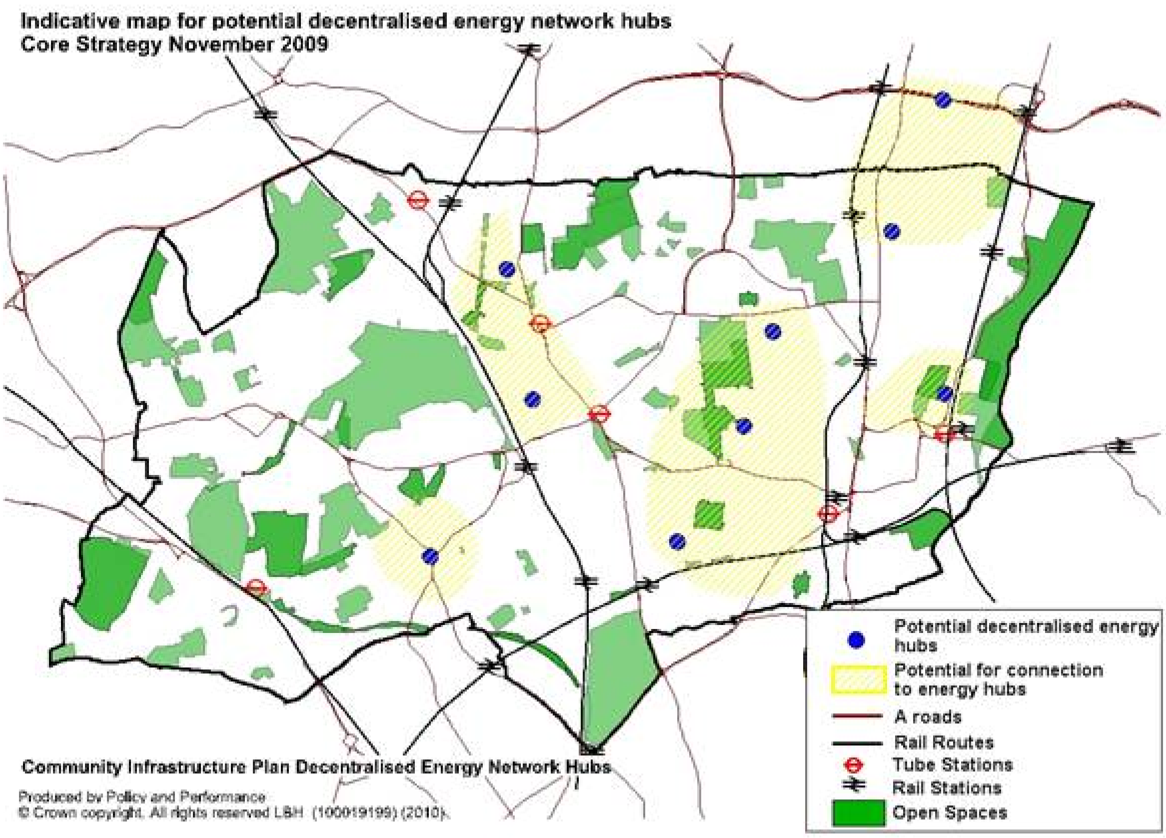


Table C2: Conservation Zones

Conservation Zone	Number of council tax records
Fortis Green	332
Campsbourne Cottage Estate	274
Hornsey Water Works & Filter Beds	646
Hornsey High Street	205
Tottenham Cemetery Conservation	0
Peabody Cottages Conservation	159
Tower Gardens Conservation	1316
Bruce Castle	430
THRHC/Scotland Green	43
THRHC/Bruce Grove	222
THRHC/Tottenham Green	593
THRHC/Seven Sisters/Page Green	274
THRHC/South Tottenham High Road	202
THRHC/North Tottenham	452
Hillfield	351
Crouch End	4225
Highgate	5761
Alexandra Palace & Park	0
Noel Park	2064
Lordship Lane	41
Rookfield	338
Stroud Green Conservation Area	3623
Bowes Park	1150
Trinity Gardens	689
Wood Green Common	316
Muswell Hill	4475
Clyde Circus	1333
Vallance Road	481
St Anns	122
Total	**30,117**

Map C4: Decentralised Energy heat loads & sources



D – Minority report on the suitability of the Green Deal

SHOULD HARINGEY COUNCIL BE A GREEN DEAL PROVIDER? - A LOCAL COMMUNITY PERSPECTIVE

Cara Jenkinson & Jonathan Boswell

We submit this paper as the two community representatives on the Investment Working Group, alongside the consultants, finance experts and council officers. We've studied the evidence, drawn on our close knowledge of local voluntary groups, and examined a wide range of sources of informed opinion.

Our conclusion is that considerable caution is needed on this issue. For Haringey to become a Green Deal Provider will require: (1) major improvements in the structure of the Green Deal; (2) low cost financing; (3) full-scale national government PR; (4) wide potential for local business and job creation; (5) a position of strength vis-à-vis large private sector operators; and (6) consideration of certain issues of principle which have not so far featured in the consultative process.

If these conditions aren't fully met, however, it will still be possible for Haringey and neighbouring boroughs to act ambitiously and effectively – without becoming a GDP – through community involvement, incentives, stimulation of the substantial self-funding part of the market which will lie outside the GD, and a comprehensive Assessment Service. An advantage of these is that, while uncertainties over the GD will take time to be resolved, plans can be pushed forward urgently.

1 MAJOR PROBLEMS IN THE GREEN DEAL AND ECO have been identified in the DECC Consultation Document, the government's Impact Assessment, the Committee on Climate Change, the Local Government Association, the responses of the leading environmental organisations, and a wide range of interested industry, trade and professional bodies. Concerns have particularly focussed on inadequate public financing, the working of the 'Golden Rule', the overall complexity and lack of clarity of the scheme, and major inadequacies with regard to fuel poverty. Substantial improvements on all these fronts are surely needed before local authorities can reasonably embark on entering an untried market as GD Providers.

2 ACCESS TO LOW COST FUNDING IS KEY. Haringey Council would need access to at least as low a cost of funding as other Green Deal Providers. For this purpose it would need to team up with other North London boroughs. It would also need to be satisfied that interest rates are substantially lower than the 6-8% currently predicted.

3 FULL-SCALE NATIONAL GOVERNMENT PR will be needed, including use of all media, and the strongest possible advocacy by leading members of the government, improving on the last government's record in this field and emphasising issues of comfort, household economy, waste reduction and health as well as emission reduction.

4 WIDE POTENTIAL FOR LOCAL BUSINESS AND JOB CREATION will depend on how delivery is managed e.g. by teaming up with one partner, or acting as a GDP for local, smaller installers. How can you make sure that a delivery partner would provide jobs to local people and

provide fair sub-contracting deals? A key trigger for GD is when people buy a new home or consider renovation. Will small local building companies have access to a GD Provider e.g. through the Federation of Master Builders? If not, should Council/s act as GD Providers?

5 A POSITION OF STRENGTH VIS-A-VIS LARGE PRIVATE SECTOR OPERATORS, particularly if the SPV route is chosen, would require not only a consortia arrangement with other North London boroughs (see above) but also (a) greater knowledge of how far other LAs have got with contract arrangements, (b) readiness to appoint a highly qualified senior manager at director level to drive negotiations and overall manage the complex processes, and (c) readiness to spend further large sums on consultancy over a long period.

6 CERTAIN ISSUES OF PRINCIPLE have not so far been considered. These include the implications of competing with other GD Providers: risks of being under-cut by large firms or alternatively of criticism for impeding free entry and fair competition. Local authority reputation/s are at stake. How will they be affected by entry as lender into the sensitive area of household financial decisions? Will there be detriment to vital LA roles as target-setter, monitor, umpire, consumer champion etc?

Finally, we suggest that, under the aegis of Haringey 40:20 Steering Group, a consultative forum be set up with wider professional and community representation to debate these issues, keep abreast of further developments, and provide further help to the Council.