Brent	**Executive** **24 March 2014** **Report from the Strategic Director of Regeneration and Growth**
	Wards affected: ALL

Green Deal and Energy Company Obligation – Delivery Partner Contract Award

Appendix 4 is not for publication

1.0 Summary

1.1 This report follows the Executive's decision in September 2013 to invite tenders for a single partner to deliver an energy efficiency programme under the Government's Green Deal scheme, with a specific focus on the Energy Company Obligation (ECO), which is designed to tackle fuel poverty, provide affordable warmth and reduce carbon emissions. The report describes the tender process, the bids received and makes a recommendation for award.

1.2 The original expectation was that one or more of the bid six energy companies would bid which would have provided a direct relationship with one of the companies required to fund and achieve the carbon savings under ECO. Changed conditions have, however, meant that the big providers are reviewing their positions, including withdrawing from or significantly altering contracts already planned or entered into. This had the potential to offer economies of scale, and it should be acknowledged that a brokerage approach offered by all the bidders is likely to result in more complex management arrangements. However, the proposed arrangement should give greater certainty over value for money throughout the contract, which is valuable in a highly fluctuating market.

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2.0 Recommendations

2.1 The Executive is asked to agree that the contract for a single delivery partner for Green Deal and ECO works in Brent should be awarded to Lakehouse Contracts Ltd.

2.2 The Executive is asked to note that the award is subject to the agreement of Brent Housing Partnership, as they are joint client for the contract with the Council.

3.0 Detail

3.1 The government's flagship energy efficiency programme, comprising the two main strands of the Green Deal and the Energy Company Obligation (ECO) on the big six energy companies, came into force in January 2013, replacing all other forms of energy efficiency funding such as Warm Front and CERT/CESP. The value of ECO (phase 1) at the time of issuing the tender was £1.3 billion, due to be spent by January 2015.

3.2 The ECO obligation was originally split into three parts:

1. Carbon Emission Reduction Obligation (CERO)
   £760M with a focus on hard to treat homes, for example solid walled or hard to treat cavities; could include connections to district heating as part of a package and whole-house retro-fit preferred.
2. Carbon Savings Community Obligation (CSCO)
   £190 million with a focus on insulation measures and connections to district heating systems for domestic energy users in areas of multiple deprivation.
3. The Home Heating Cost Reduction Target Obligation (HHCRO - often referred to as the 'affordable warmth' element)
   £350 million with a focus on increasing the ability of low income and vulnerable householders to heat their homes more affordably, for example through insulation or boiler replacements.

3.3 In going out to tender, there were two distinct areas of work in the Specification. Firstly there is ECO works on the Council's own housing stock, to be supervised by BHP, and secondly a role for the provider to work with the Council to promote ECO and Green Deal across the borough, as the Council's preferred partner for delivery of these schemes.

3.3. However the Government is consulting on changes to the scheme, details of which are set out in Appendix 1. This consultation started in November 2013, part way through the Council's tender process for its delivery partner. It is not certain when the consultation will be completed, although it is likely to be in the late summer or autumn of 2014. There is therefore some uncertainty about the final shape of the changes, but it is assumed that they will be introduced largely as announced. In that case, there are significant implications for the viability of the scheme specification as originally set out, mainly due to a reduction in the obligations placed on the big six utilities and an extension of the timescale in which the utilities are required to deliver them. The proposals most affecting Brent's approach are:

- Reducing the CERO element by 33% from £760Million to £509.2Million, with the deadline for meeting the target extended to 2017 from January 2015.

- Allowing loft insulation and easy-to-treat cavity walls – measures which are much easier and cheaper to install - to contribute towards the target.
- Limiting the amount of solid wall insulation installations required to 100,000 homes – 25,000 installations per year - an obligation that has largely been met already by the obligated parties. This was expected to make up a large proportion of works in Brent.

3.4 These changes have been driven by two main factors. First, the energy companies had lobbied from the start for an extension to the time period over which ECO 1 should be delivered, arguing that the expectation that the range and extent of measures could be delivered by January 2015 in one year was unrealistic, especially since the preferred period for undertaking many of the works would be the summer and autumn, further restricting the timescale. Second, the government's decision to support an overall reduction in fuel bills following price rises has essentially shifted provider resources away from ECO.

3.5 The main outcome of reducing the amount of solid-wall insulations the energy companies need to deliver under the scheme is likely to be that the overall price of carbon will drop. Industry experts warn that this is likely to go from around the £140/tonne mark to around £40/tonne, but there is a need for some caution in predicting the market response and it should be noted that prices at the £140 per tonne level were not achieved in many cases and generally only towards the end of earlier schemes, at which point providers were under pressure to achieve targets. The price per tonne is important because it is the main factor governing the level of resources that energy providers will be willing to contribute to schemes.

3.6. Initial feedback from bidders suggested that more time was required to consider the proposed changes but that revised bids could still be expected. To help bidder's revise their submissions, the deadline for responses to the invitation to tender was extended to January 2014. Although a large number of expressions of interest were received, the shift in the landscape has had a significant impact and the majority declined to tender.

3.7 No doubt owing to the changes and resultant uncertainty, only 4 responses were received, none of them from the large energy suppliers. Broadly, these all propose brokering arrangements, through which work packages identified can be progressed down different funding supplier routes through offering packages to the market. This approach has been taken by some other Local Authorities. Feedback from other authorities who have either signed or were about to sign contracts with organisations including the large energy companies are that these agreements are being withdrawn, or amended, suggesting significant uncertainty in the market for the time being. In this climate, it is felt that a brokering approach, through which a partner can engage across the market to draw in funding from the large energy companies for works which it then carries out itself, may be the most effective way of both securing packages of work and achieving best value. However, as noted earlier, this approach is more difficult to manage in terms of achieving the longer-term benefits hoped for in terms of building a long-term green economy locally, while it does provide the Council with better certainty of getting current value for money during the life of the contract.

3.8 It should also be stressed that it is difficult to estimate either the extent or value of works that might be delivered with any precision, particularly as the price of carbon is not settled and the large energy providers are considering how they will invest in future. The levels of investment envisaged in the original report to the Executive were based on provider attitudes at that time and the fact that the scheme would have to deliver the then ECO obligation over one year. However, it should also be recognised that ECO remains in place, albeit at a lower overall value and over a longer period, and that the energy companies will still need to support delivery of relevant measures. In this market, a relationship with a partner that can work with the energy suppliers to secure finance for packages of work has emerged as the only way to ensure that measures are delivered in Brent in a cost effective way.

4.0 Evaluation Process

4.1 The bidders were told that their bids would be evaluated in accordance with the evaluation criteria set out at Appendix 2. The names of the bidders are set out in Appendix 4 (not for publication). The bids were duly scored and all four bidders were invited in for interview. As well as specific questions on the bids, the interview sought views on the following areas to help clarify the issues in relation to the proposed Government changes to the scheme:

- Taking account of the government's proposed changes to Eco, what might be the best opportunities to maximise energy efficiency funding and benefits in Brent.
- How the changes to the scheme might affect bidders' expectations from Brent, if at all.
- Whether circumstances could arise that could undermine the basis for the proposed contract.
- What commitment bidders could offer that project plans are deliverable given the current uncertainties about the programme.
- How the attitudes of energy providers have changed as a result of government changes to the ECO.
- Expectations for take-up of Green Deal/ECO funding in then private sector and whether changes to the scheme might affect this.

4.2 Scores following the tender evaluation and interviews / clarification were as set out in Appendix 3.

4.3 Following evaluation and interviews, Lakehouse Contracts Ltd emerged as the successful bidder. Their bid demonstrated that they have a close relationship with providers and provided clear proposals for marketing and customer engagement to maximise take-up. They estimate carbon savings across all tenures of 300,000 tonnes can be achieved over the course of the contract with the value of ECO-funding depending on the price of carbon over that period. The panel was satisfied that Lakehouse Contracts Ltd has sound proposals for customer engagement and customer care, which will be a vital element in ensuring the success of any programme.

4.4 In summary, the preferred bidder set out the following approach to delivery. The project would be delivered through a partnership between Lakehouse Contracts Ltd, who will act as installers and lead on customer care, Foster Property Maintenance, the Green Deal provider and Everwarm, who will lead on ECO installation and marketing. The Council would have a contract with Lakehouse Contracts Ltd who would sub-contract to its two other partners. The partnership has close relationships with energy suppliers and has secured commitments to deliver carbon savings, although (as with all other providers) prices have yet to be finalised. Delivery would be through the partnership, with no significant additional sub-contracting and there are clear proposals for marketing and customer engagement to maximise take-up.

4.5 At this stage, their proposal indicates a carbon saving of 210,000 tonnes through measures in the social housing sector and 90,000 tonnes in the private sector over the course of the contract. Value will depend on the price of carbon, which will fluctuate over the contract period and it is therefore essential to stress that figures presented here are an estimate, based on what the partner believes it can deliver and that the actual outcome may differ. If the market price is towards the lower end of current predictions at £40/tonne this would equate to an investment of £14m; at the elevated level of £140/ tonne obtained prior to the Government's announcement it would equate to £42m. At this stage, no account has been taken of proposed or possible future changes to the green Deal cash back scheme, which is expected to improve take-up. There is also scope to access other funding streams outside ECO and Green deal (some of which are summarised in Appendix 1) that could add value.

4.6 ECO funding will support measures in the council and other social housing stock as well as in the private sector and potential packages for the first year of the programme within the HRA stock have already been identified. In the longer term, a key aim is to ensure that ECO works mesh with other planned maintenance works within the Council housing stock. The partner will also be responsible for delivery of the Green Deal, working with the council and other partners, where the focus will be on the private sector – owner-occupied and rented.

4.7 In light of the changes to ECO and the resultant market uncertainty, it is possible that the Council may wish to revise its original plans and/or elements of the tender agreement when the final outcome of consultation is known. The contract includes a break clause at March 2015, allowing either party to withdraw in the event of significant change. This is addressed in more detail in the legal implications below.

4.8 In the meantime, the council will continue to work with Energy Solutions, who will continue to refer individual cases for support under the remaining ECO strands, largely the Home Heating Cost Reduction Obligation (HHCRO) available to residents. In the longer term, the role of Energy Solutions in the partnership will be considered as noted at 5.2 below.

5.0 Financial Implications

5.1 The contract does not require direct financial commitment from the council since the intention is to secure funding from the energy providers subject to the ECO. However, it should be stressed that ECO funding alone is unlikely to cover the full cost of all work in all circumstances, although this may be the case for some measures and the position may change over the course of the contract in line with the development of the market. In the private sector – including owner-occupiers, private landlords and housing associations– any additional contribution will come from those individuals or organisations benefitting from measures and may, in some cases, be mitigated by the Green deal cashback arrangements. With regard to the council stock, any contribution required from the council will, in the first instance, be considered on a case-by-case basis while the overall intention will be to ensure that ECO-funded works are carried out in tandem with planned repair, maintenance and improvement works that are already budgeted for.

5.2 The Council has an existing long-standing SLA arrangement in place through which Energy Solutions are funded to support vulnerable residents and those in fuel poverty; and their role from 2014/15 will be formalised on the outcome of this report but with flexibility in any future agreement to absorb changes arising from the Green Deal/ECO scheme.

6.0 Legal Implications

6.1 The clients under the proposed contract are firstly the Council and secondly Brent Housing Partnership (BHP). Both organisations were named as parties in the Council's procurement exercise, with the Council as lead. Therefore BHP is an additional party to the contract and the award of contract cannot be implemented until they have approved it according to their won procedures. Under the contract, BHP has the role of working closely with the successful bidder in relation to works on the Council's own stock, in relation to which the Council's role will be more strategic. The Council will also carry out the partnership working to promote the successful bidder in the borough as the preferred delivery partner for ECO and Green Deal works where the property is not Council housing.

6.2 The legal structure of the proposed relationship with the successful bidder is that it is a works concession contract, whereby the payment that the contractor receives for carrying out works and services for the clients is partly derived from exploiting the provision of the services and works with third parties. On this basis, the contract is hard to value; however it was procured in accordance with the specific procedure in the EU public procurement legislation for works concessions contracts, and is being treated under

Contract Standing Orders as a High Value contract requiring Executive decision-making.

7.0 Diversity Implications

7.1 In general, the impact for households with protected characteristics is expected to be positive, in particular due to the elements of the schemes targeted at vulnerable and low-income households and those living in areas scoring high on the Index of Multiple Deprivation. Energy Solutions will prioritise the most vulnerable residents who qualify for support under the Government's qualification criteria.

8.0 Staffing/Accommodation Implications (if appropriate)

8.1 The overall project will be project-led and contract managed by the Housing & Employment Division, with support for non-BHP/area based schemes from Environment and Neighbourhoods. BHP will ensure that works on the Council's own stock are carried out in accordance with the contract and the agreed specification for each package of works.

Background Papers

Executive, 19th August 2013: Authority to tender contract for an energy company obligation (ECO) project partner; Report from the Director of Regeneration and Growth

Proposed changes to ECO: DECC, December 2013; http://blog.decc.gov.uk/2013/12/04/changes-to-the-green-deal-and-the-energy-company-obligation/

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APPENDIX 1 – PROPOSED CHANGES TO ECO AND GREEN DEAL

Note that a formal consultation paper has not yet been published and these proposals could change. At present, it is expected that consultation would run for twelve weeks.

Energy Company Obligation

Changes to ECO include:

- Reducing the Carbon Obligation (CERO) target by 33%. The 2015 Carbon Saving Communities (CSCO) and Affordable Warmth (AW) targets will remain the same.
- Extending the ECO scheme to March 2017 with new targets for CERO, CSCO and AW at 2015 levels.
- Enabling energy suppliers to carry forward any over delivery against 2015 targets to count towards their 2017 targets.
- Enabling energy suppliers to carry forward over-performance from the predecessor schemes (CERT/CESP) and count it towards their ECO targets.
- Allowing companies which have delivered substantial early progress against their current CERO target to benefit from an uplift in scores for the measures delivered
- Extending the CSCO element of ECO from the 15% to the 25% lowest areas on the Index of Multiple Deprivation and simplifying the qualifying criteria.
- Including District Heating as an allowable primary measure under CERO.
- Including loft and easy to treat cavity walls as an allowable primary measure under CERO.
- Introducing and standardising measures to prevent fraud, particularly around loft and easy to treat cavity wall insulation.
- Introducing a solid wall minima set at 100,000 measures to be delivered by 2017 across all companies and all elements of ECO.

The government recognises that changes to ECO will reduce carbon savings through the scheme. To balance this and, according to the government's statement, to make to overall carbon impact neutral, the following additional programmes are proposed:

- A stamp duty rebate worth at least £1,000 from Government to spend on energy-saving measures – equivalent to half the stamp duty on the average house – and more for expensive measures like solid wall insulation – up to £4,000. All movers, not just those who have paid stamp duty, will qualify with a view to assisting around 180,000 households over three years.
- Targeted investment for more energy efficient homes within the Private Rented Sector, designed to help landlords meet the minimum standard (EPC E rating) that will be required under the PRS Regulations from April 2018.

- £90 million of the overall £540 million package will help improve the energy efficiency of public sector buildings, including schools and hospitals, where an additional £30m will be made available in each of the 3 years from 2014/15 building on the existing Public Sector loans programme (SALIX).

Green Deal

DECC has announced a series of measures to simplify the Green Deal process, including:

- Introducing a new on-line tool that will give consumers straightforward advice on the steps they can take to improve the energy efficiency of their homes, and how they can get help.
- Improving the Green Deal Advice Report that gives householders important information on what an assessment is telling them. The Report will be clearer and easier to understand, and better signpost the range of Government support available.
- Giving consumers better signposting to the companies that can provide the services they want, both through the Energy Saving Advice Service and the GOV.UK website.
- Opening up access to Energy Performance Certificate data, so that companies can more easily identify properties which will benefit most from energy efficiency improvements.
- Adding more measures to the list of those that can be supported under the Green Deal, and allowing more flexibility over the exact specification to which companies install.
- Working with industry to find ways to reduce the cost of insurance requirements attached to Green Deal measures.
- Ensuring customers can, if they choose, move from quote to a Green Deal Plan in a single day.
- Change legislation to make it clearer that landlords and tenants can benefit from the Green Deal and encouraging industry to offer finance in the rented sector.
- Working towards increasing the range and availability of “top up loans” that customers can put alongside Green Deal finance if they wish.

APPENDIX 2 – AWARD CRITERIA

Quality Criteria	Quality Sub Criteria	Question weighting	Sub Criteria weighting
Project Plan		30%	
	Project Plan Year 1		*60%*
	Project Plan Years 2 – 5		*40%*
			100%
Partnership working		25%	
Quantity and Quality of measures		15%	
Social and Economic benefits		15%	
Delivering best value		15%	
	Quality Total Score	**100%**	

Quality Weighted Score	**70%**

Financial Benefit Criteria	Question weighting
Estimated minimum investment	60%
Value of resources	30%
Additional financial benefit	10%
Financial Benefit Total Score	**100%**

Financial Benefit Total Weighted Score	**30%**

APPENDIX 3 – RESULTS OF EVALUATION

	Bidder A	**Bidder B**	**Bidder C**	**Bidder D**
	Bidders Weighted Score	**Bidders Weighted Score**	**Bidders Weighted Score**	**Bidders Weighted Score**
Project Plan	23%	15%	23%	23%
Year 1	*45%*	*30%*	*45%*	*45%*
Years 2-5	*30%*	*20%*	*30%*	*30%*
Total	*75%*	*50%*	*75%*	*75%*
Partnership Working	19%	19%	19%	19%
Quantity and Quality of Measures	11%	8%	11%	11%
Social and Economic Benefits	11%	11%	11%	15%
Delivering Best Value	11%	8%	11%	11%
Quality Total Score	**75%**	**60%**	**75%**	**79%**

Quality Weighted Score	**53%**	**42%**	**53%**	**55%**

Estimated Minimum Investment	30%	30%	45%	30%
Value of resources	23%	23%	23%	23%
Additional Financial Benefit	8%	5%	8%	5%
Financial Benefit Total Score	**60%**	**58%**	**75%**	**58%**

Financial Benefit Weighted Score	**18%**	**17%**	**23%**	**17%**

Total Score	**71%**	**59%**	**75%**	**72%**
Overall Rank	**3%**	**4**	**1**	**2**