

Financing Eco-refurbishment – a local authority solution

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Christoph Harwood
Marksman Consulting LLP

energy[®]
saving
trust



Objectives

To present financing opportunity for local authorities for large scale home eco-refurbishment plan

- Energy efficiency and renewables
- Private and social housing

Green Deal aligned programme

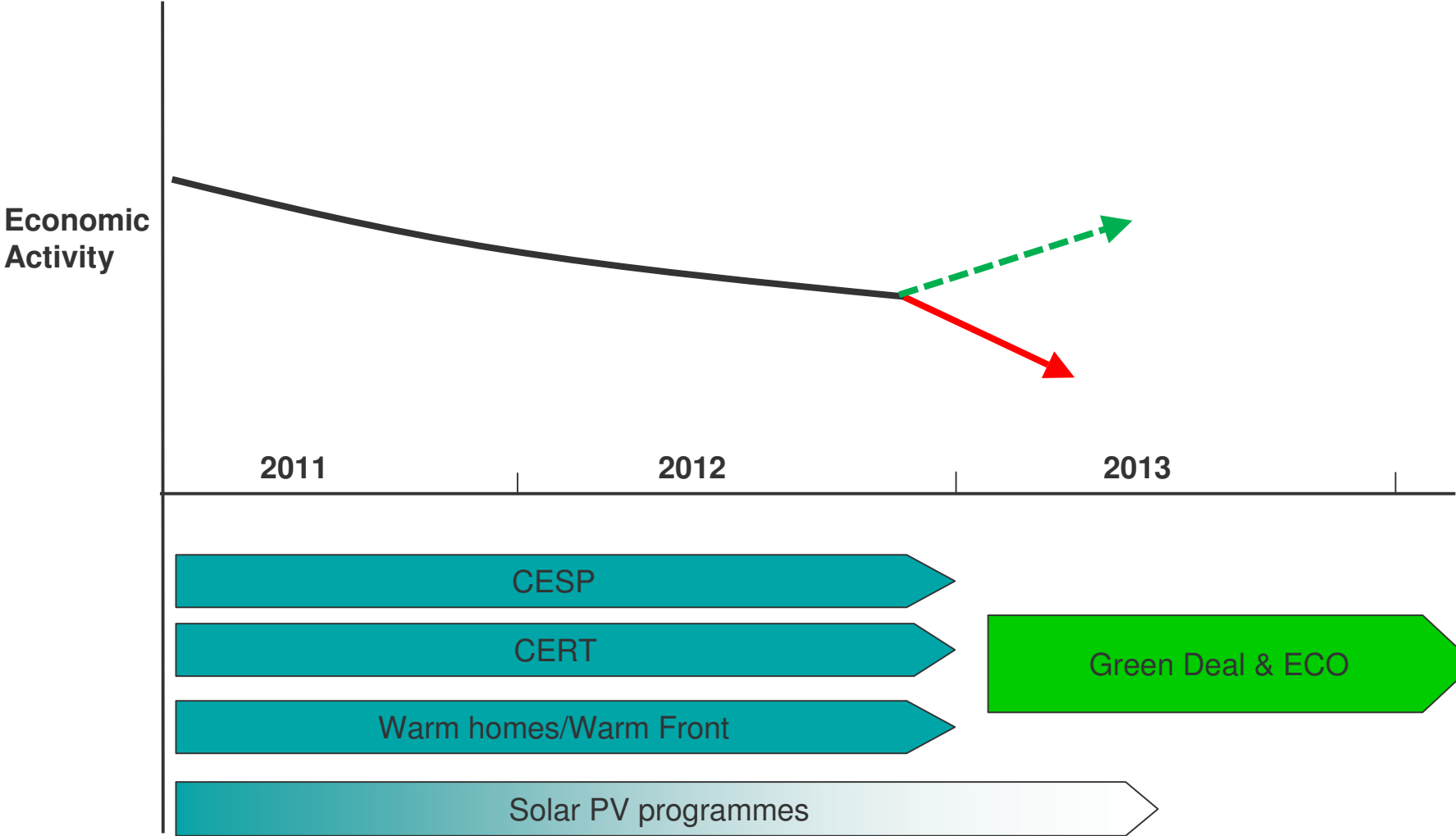
Delivery of local economic benefits

- Job creation
- Broader based low carbon economy
- Fuel poverty
- Public health
- Carbon savings

Based on work carried out 2009 onwards

- Energy Saving Trust 2009-11
- Birmingham, Newcastle, London, West Sussex, Greater Manchester, Scotland, Wales, Leeds City Region
- LEEP, financed by the Sainsbury Family Charitable Trusts.

Changes to the energy efficiency sector



Benefits for Birmingham – 15,000 homes

Provisional

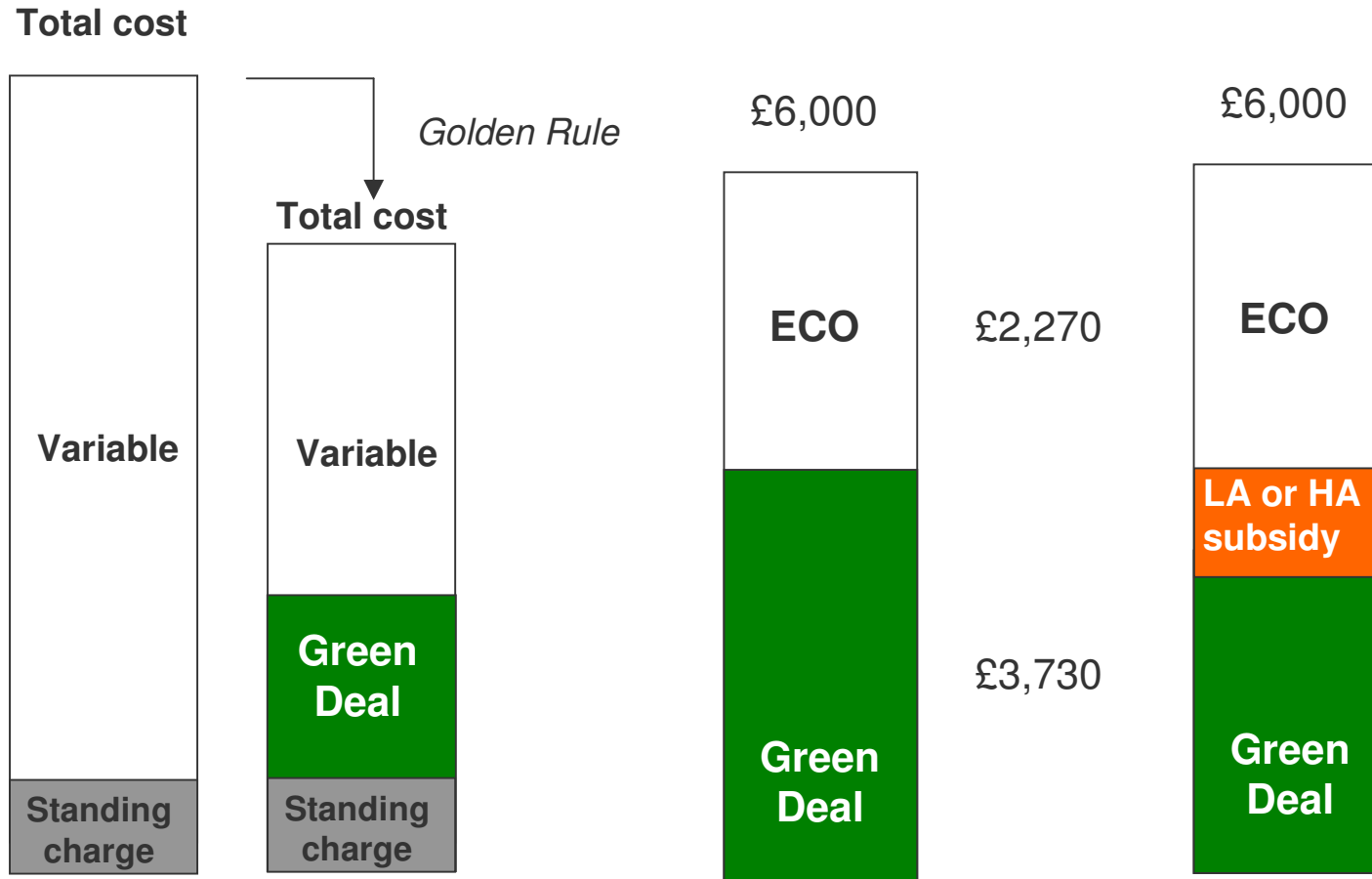
	Direct	Net	Net additional
Expenditure	←	£100m	→
FTEs	200-250	400-500	200-250
GVA	£10-15m	£20-25m	£10-15m
Energy expenditure saved pa	←	£2-3m	→
Carbon Savings (KT pa)	←	20	→

Net Additional Economic Effects allows for both direct economic effects and the net economic effects from the relevant multipliers. However, they are then adjusted downwards for leakage, substitution, deadweight and displacement

Policy issues

Policy area	Current understanding
Green Deal	<ul style="list-style-type: none">• No upfront costs to the house holder for work done• Will provide charge on electricity bill• Golden Rule• 25 years tenor• Energy efficiency only – renewables require FIT/RHI
Supplier Obligation (ECO)	<ul style="list-style-type: none">• New supplier obligation from 2013 (£1.3b pa)<ul style="list-style-type: none">– Vulnerable – “Affordable Warmth” (£0.35b)– Community (£0.19b) – 10% in rural areas– Hard to treat homes – “Carbon Savings” (£0.76b)• Provides ability to make uneconomic measures economic

Golden Rule, CS ECO, Fuel Poverty



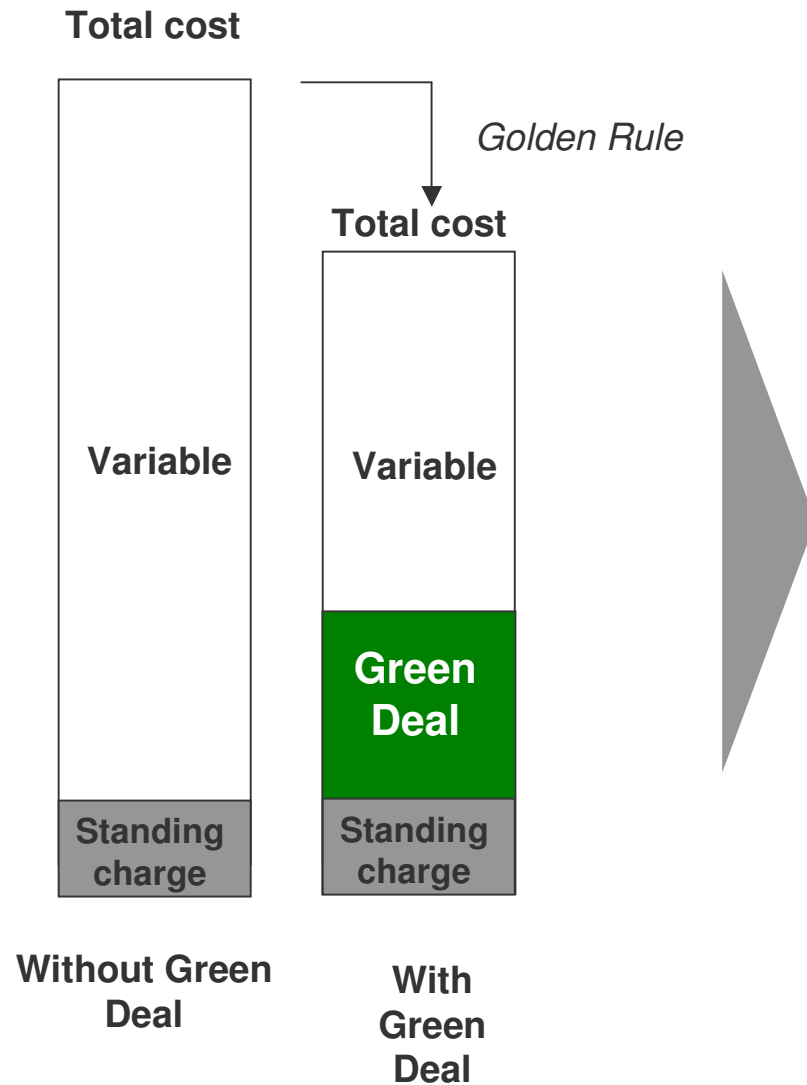
Before

After

DECC ECO CS illustration

Occupancy test indicates that full Green Deal plan will not be viable. Part payment by LA or HA fills the gap

Social housing – the view of the tenant



Existing tenant – better off when Green Deal plan in place

New tenant on choice based letting – moving into property that is cheaper to heat

Main risk is fewer members in incoming household may mean occupancy test would not have worked => use mix funding, assuming low usage

CS ECO, Fuel Poverty

5.5% interest year one

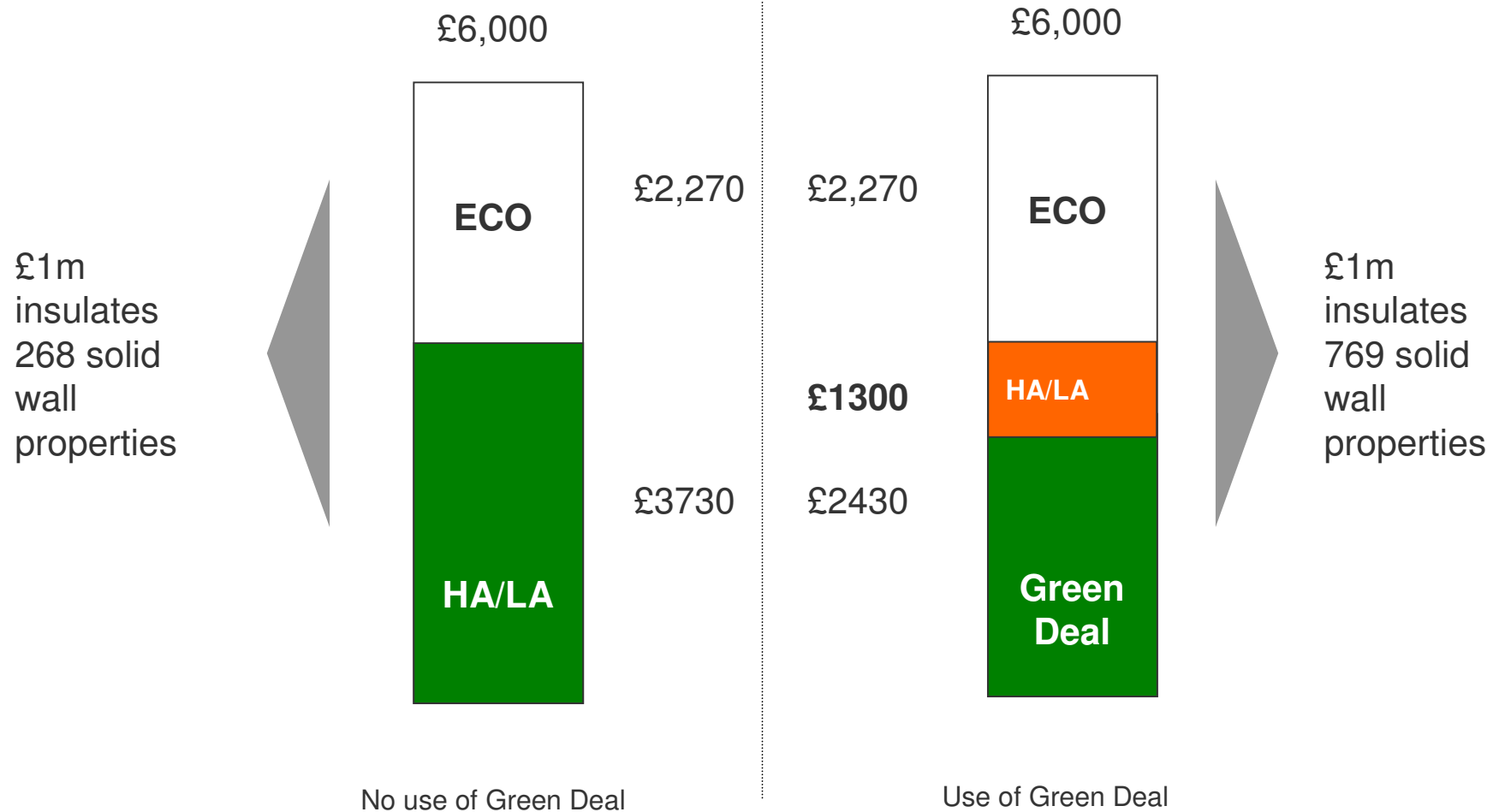


Gross benefit	£385	£289
GD payment	£278	£181
Net benefit	£107	£107

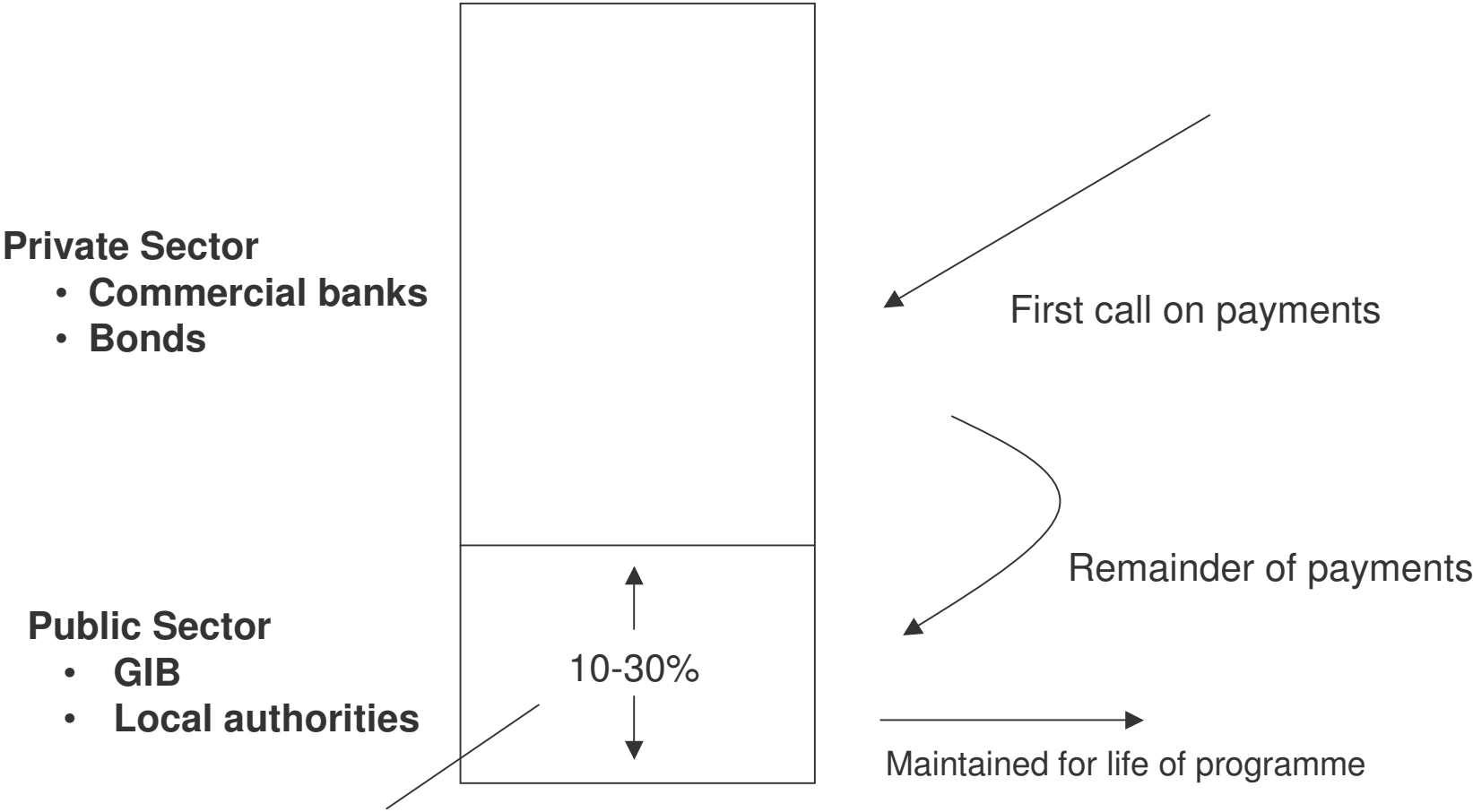
75% of average heat use
75% of benefits

Social housing and Green Deal

5.5% interest year one

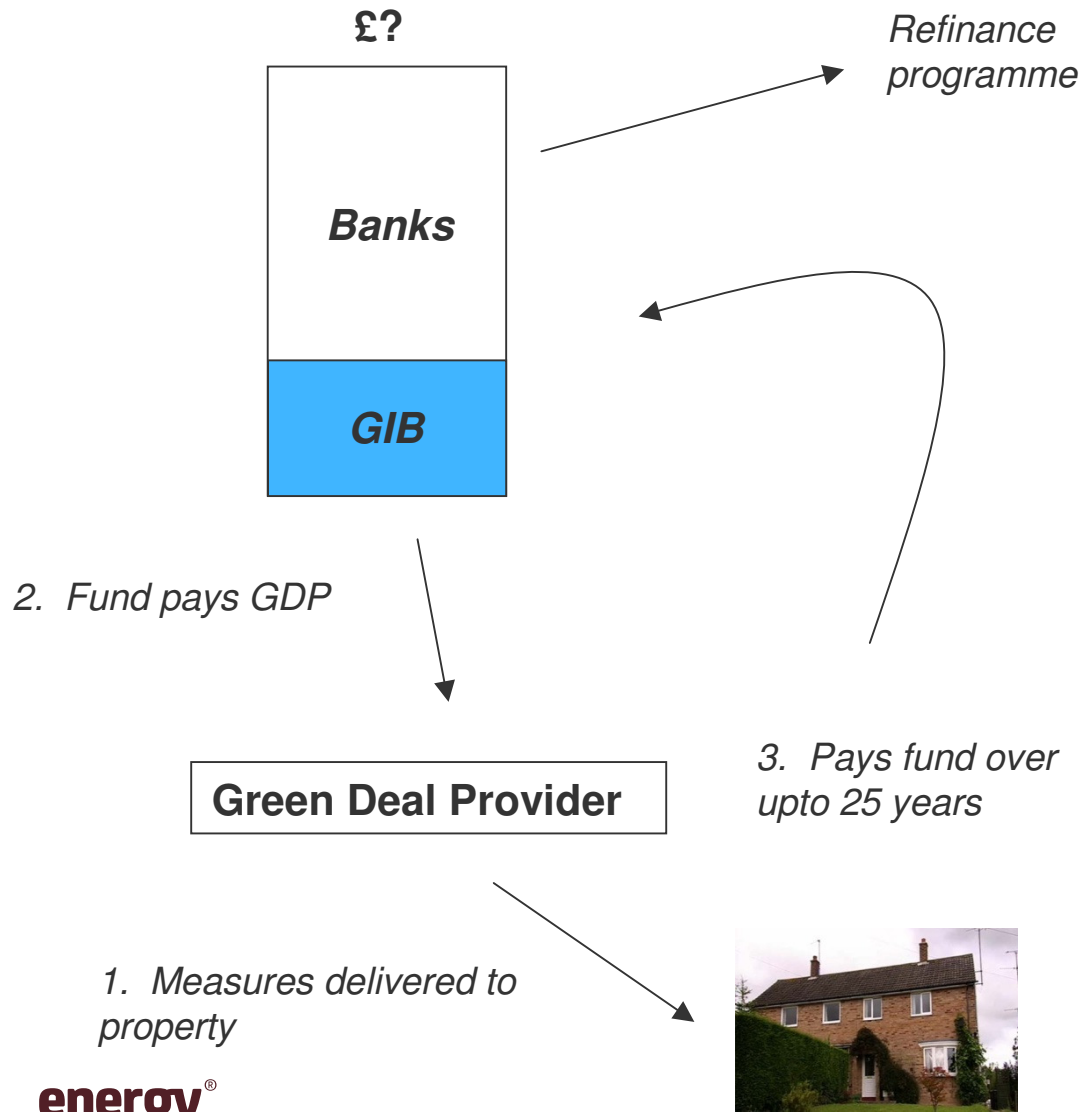


Financing the Green Deal – role of public sector finance



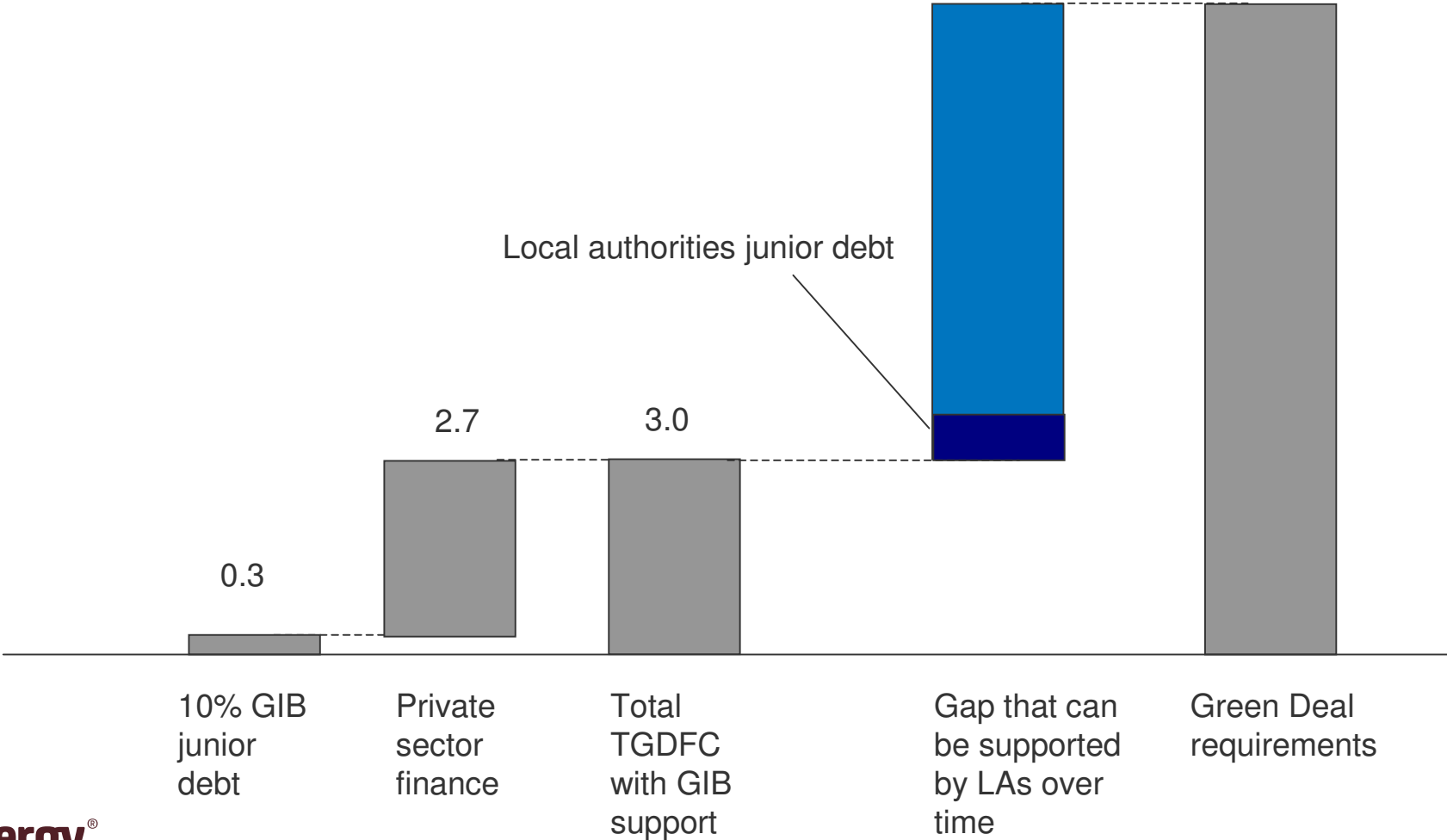
“Equity layer”
“Junior debt”
“First loss layer”

The Green Deal Finance Company (TGDFC)

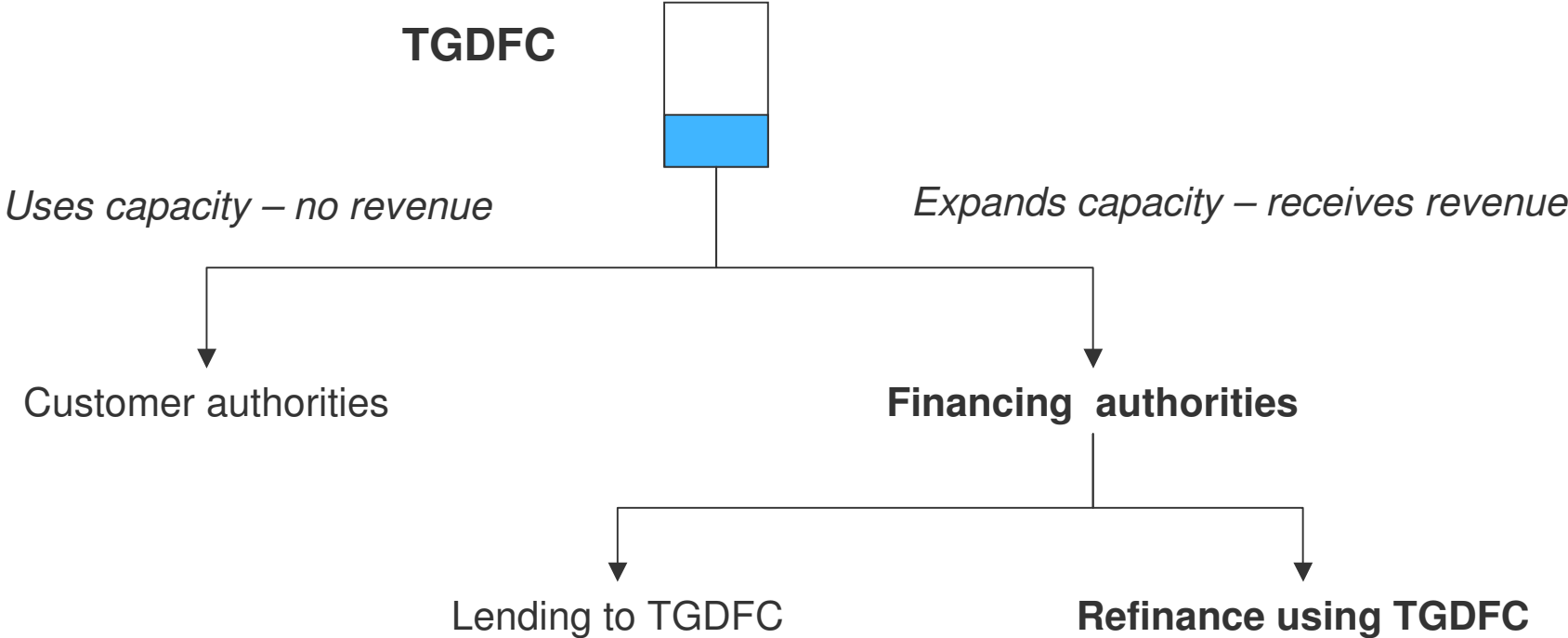


- Requesting funds from GIB
- Decision in Q1 2013
- State aid review
- Awaiting clarity on T&Cs

Creating enough Green Deal capacity



Role of LAs for TGDFC

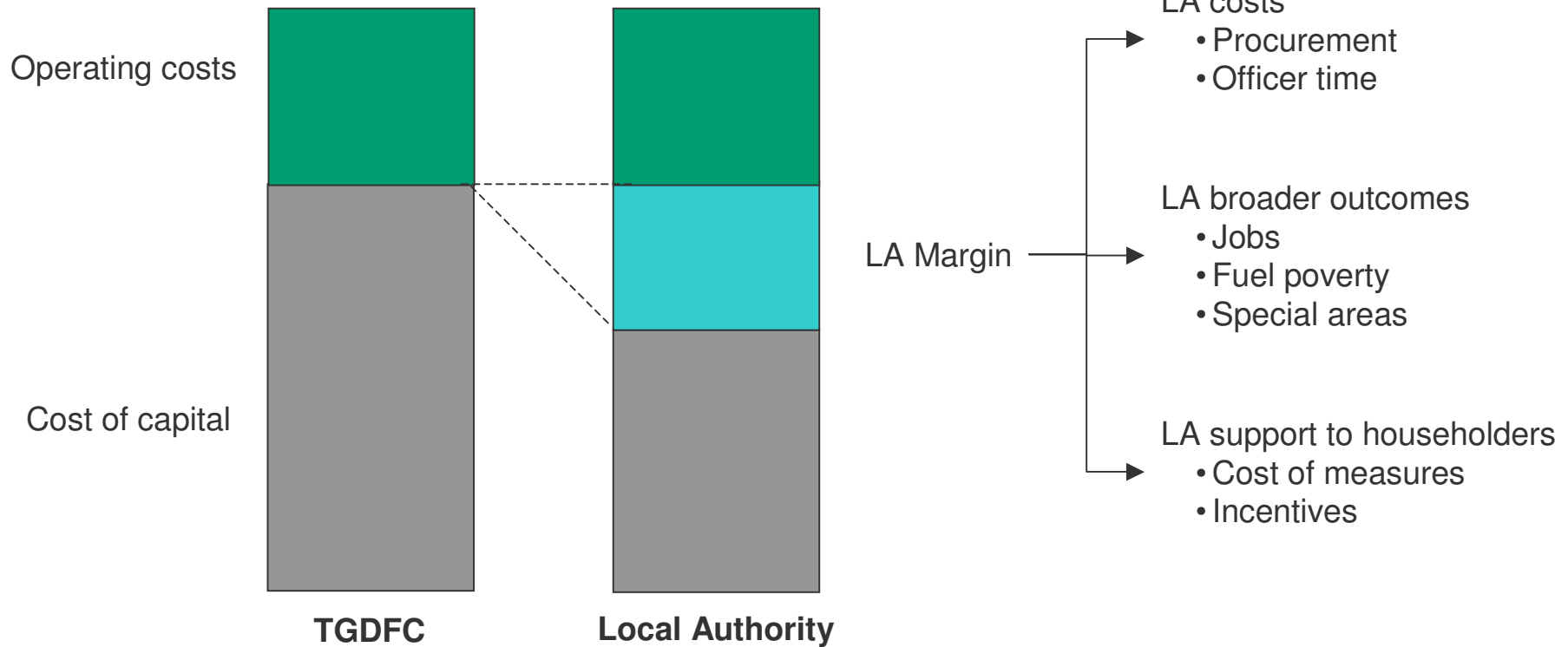


- Use TGDFC operational support from offset

Margin from providing finance

Provisional

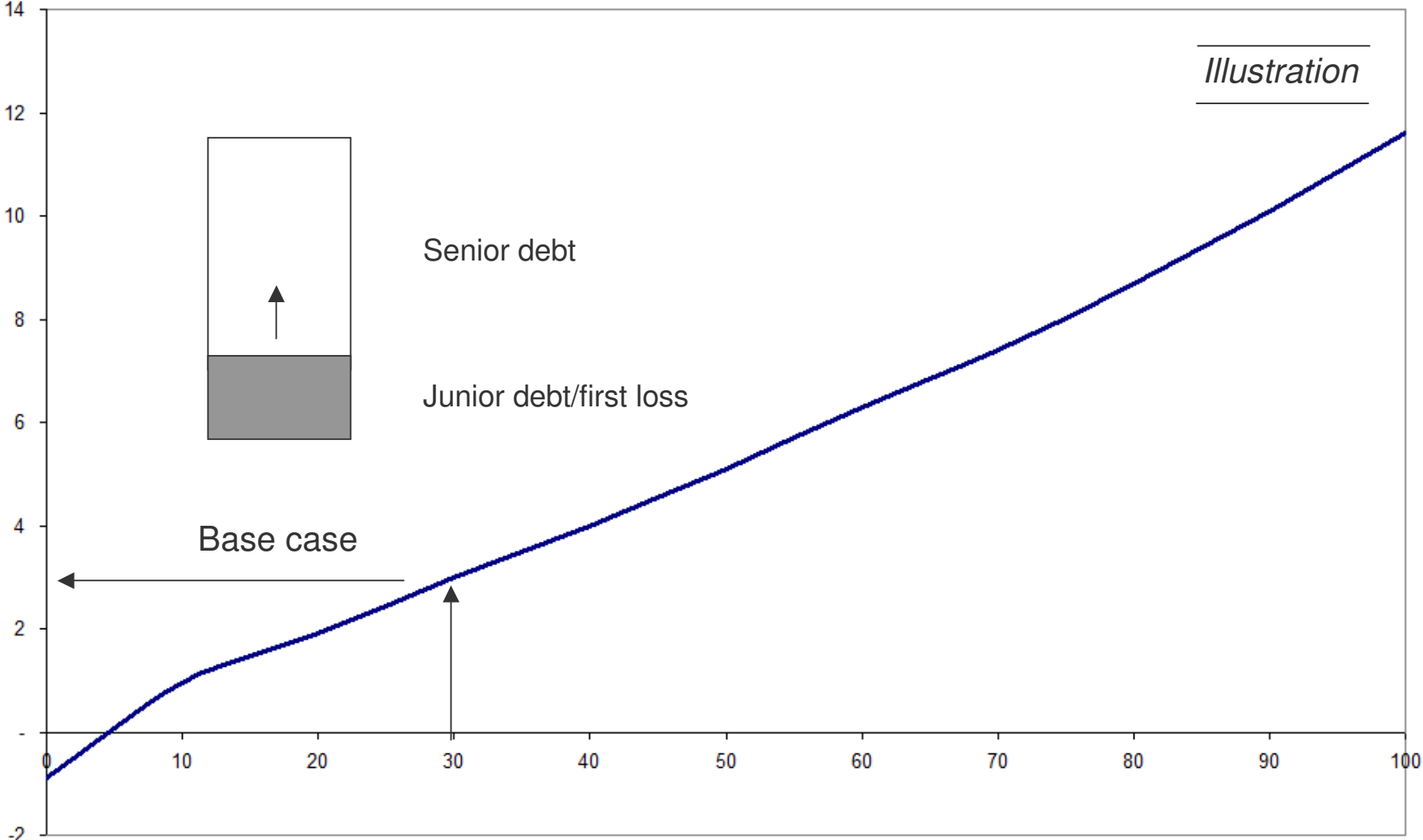
Market APR to consumer (~7.5%) set by TGDFC



- GIB junior debt to TGDFC is 3.85% over Gilts
- PWLB is 0.8% over Gilts

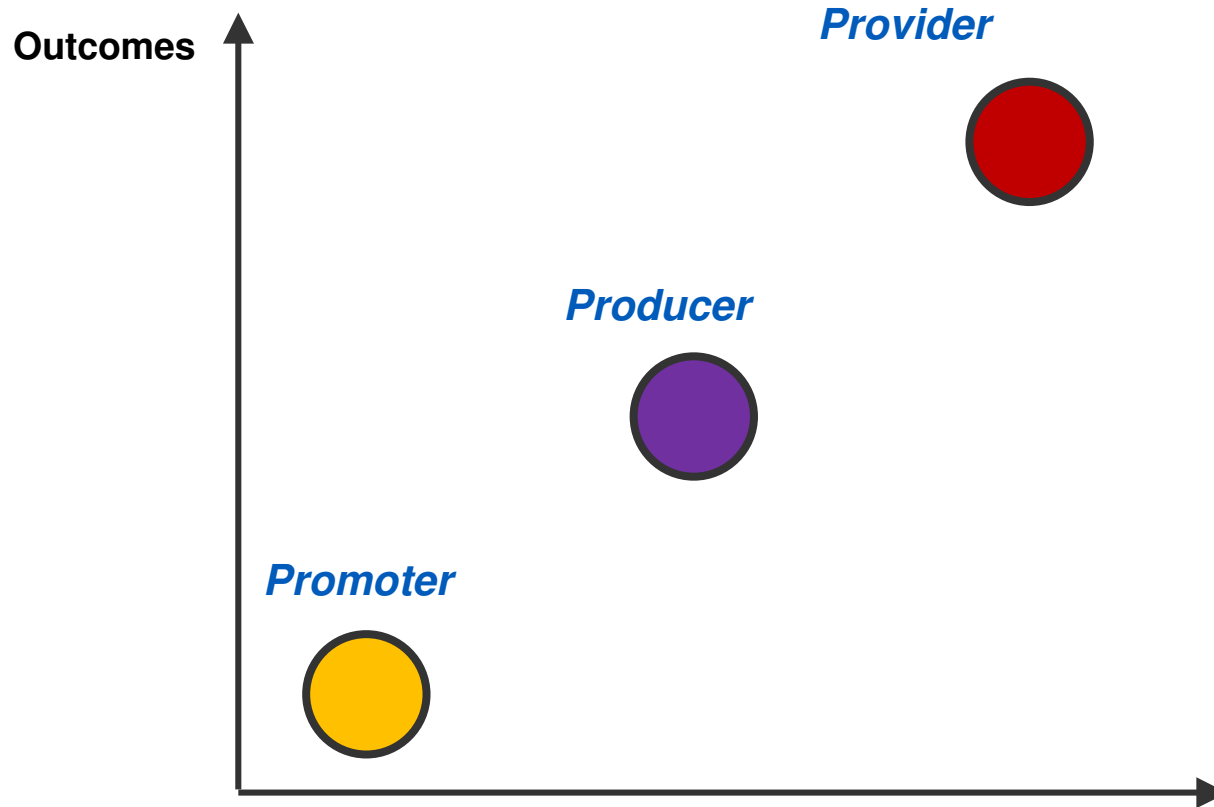
First loss layer and revenue generated (£75m programme)

Revenue available (£m)

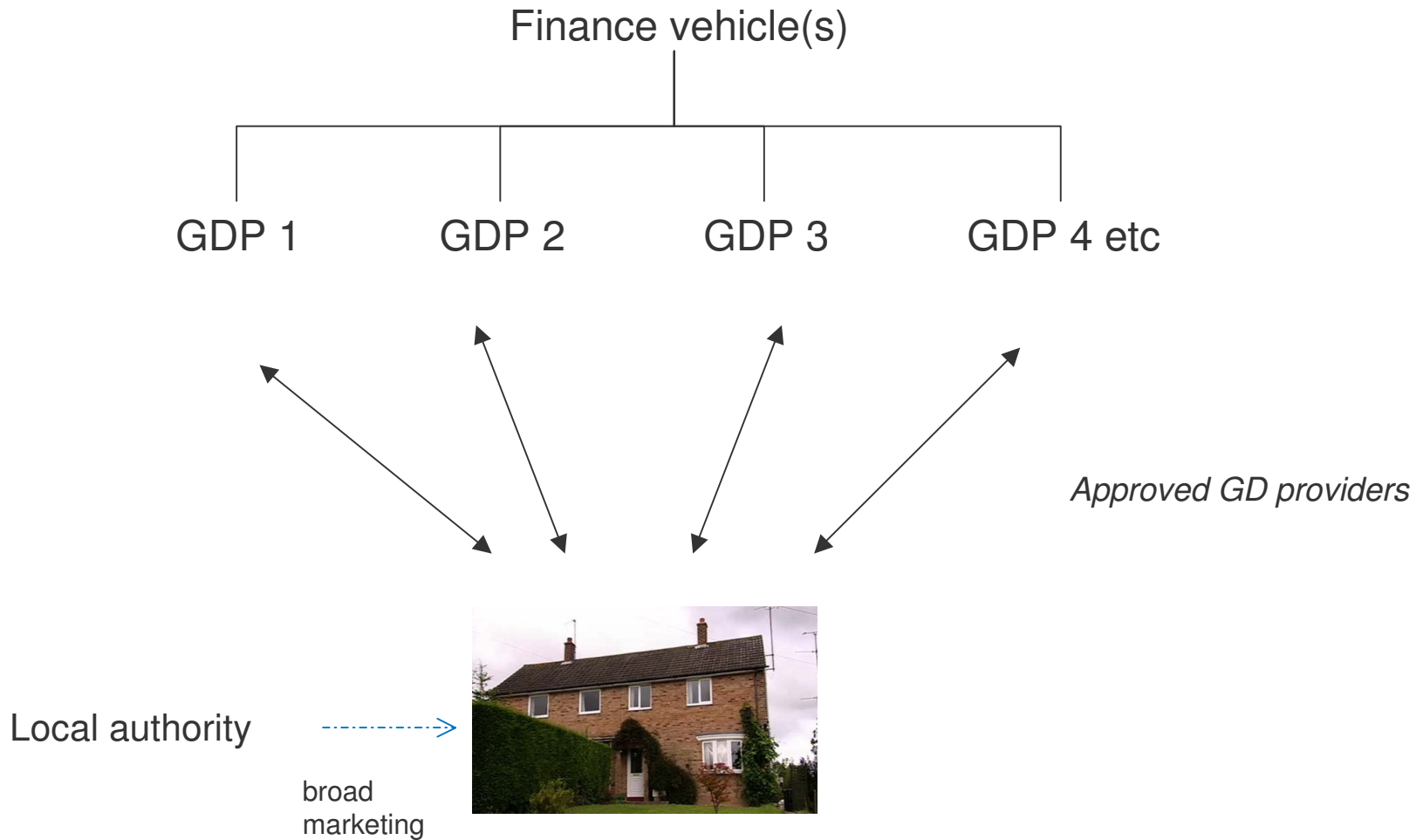


Illustration

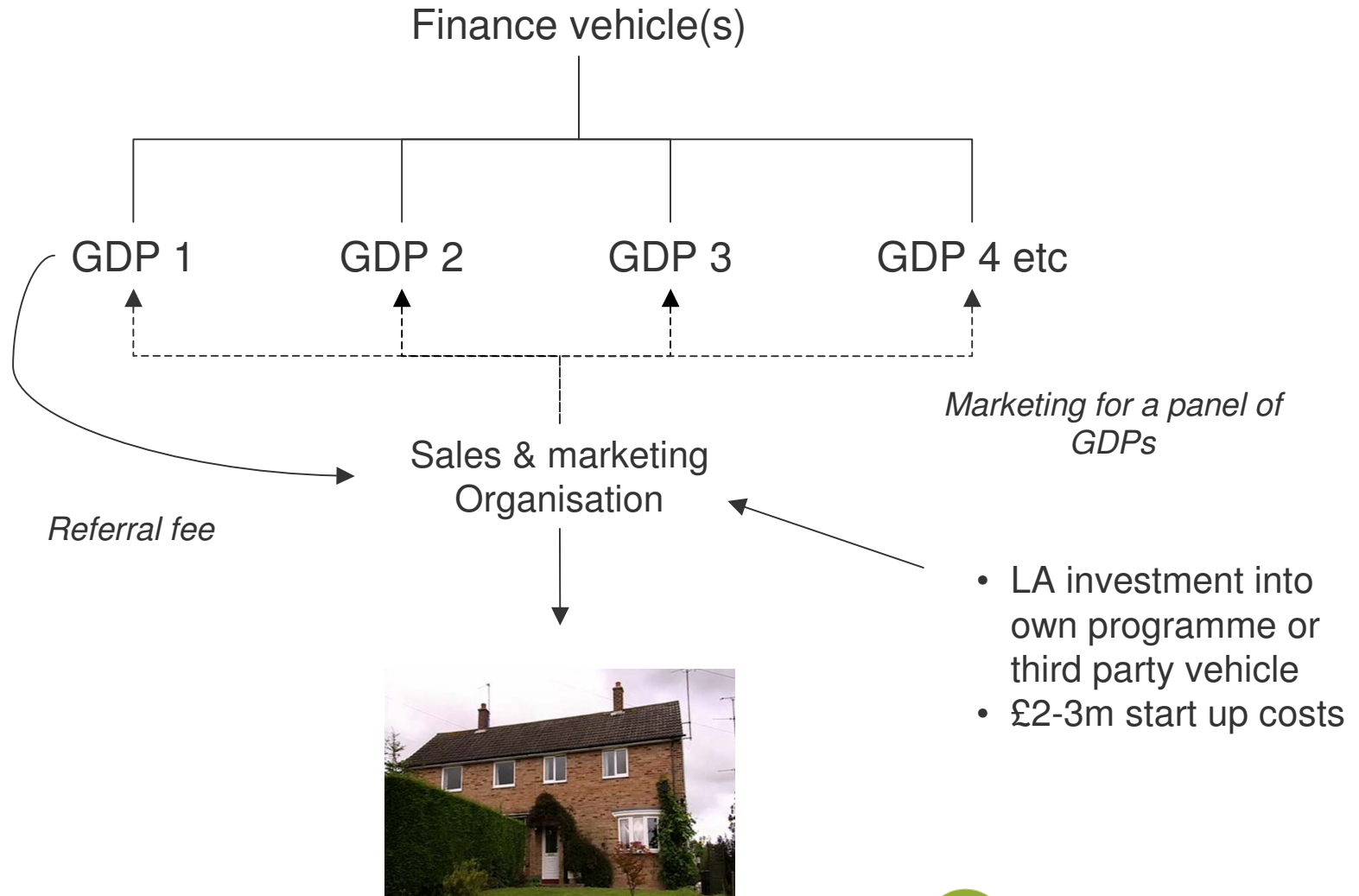
Models based on appetite for input and output requirements



Local authorities – Promoter model



LA Producer model



Birmingham and Newcastle provider models

Birmingham

- Cabinet decision in April 2011
 - Initial programme of 15,000 houses and £100m
 - Option to extend to 60,000 and £400m
- OJEU and PQQ issued in Sep 2011
 - 22 West Midland local authorities
 - 11 other public sector organisations
 - Includes own non-domestic
 - £275m with option to extend to £1.5b
- Oct 2012 - Carillion selected
- State aid application with TGDFC

Newcastle

- Cabinet decision in July 2011
 - Recognised need to work with neighbouring authorities to achieve scale
 - Open up to North East councils
- Cabinet decision to proceed passed in Jan 2012
- OJEU issued in June
 - Five local authorities committed from start and five with option to join
 - Eleven housing associations
 - Fourteen other public sector bodies
 - Non-domestic included
- Oct 2012 – Eight bidders pass PQQ and into ISOS

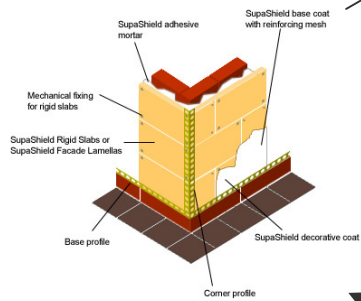
Local authority activity on Green Deal provider model

Multiple areas of dialogue	Option review	Business case	Developing regional support	Procurement
✓	Black Country	Scottish Government	West Sussex	Birmingham (1+22)
✓	Edinburgh	London		Newcastle (5+5)
✓		Leeds City Region		
		Wrexham & Flintshire		
		Greater Manchester		

Financing offer to house owner

**Energy efficiency
with Green Deal**

Lower cost energy bills



~£8,000

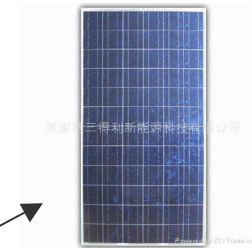
25 year Green Deal service charge

- CS- ECO help with hard to treat



**Renewables
with roof rental**

Free electricity (£100-200) pa






~£5000

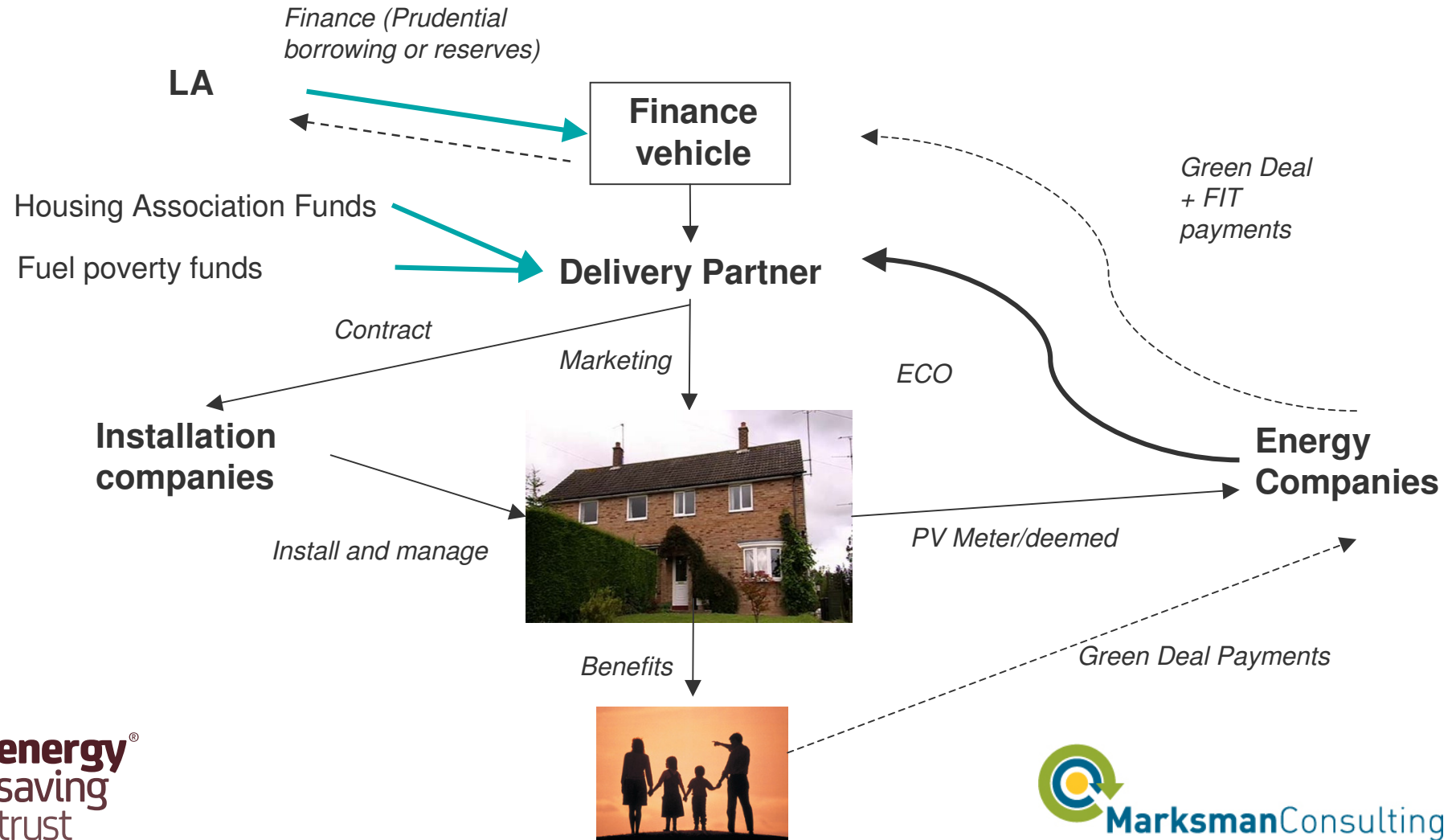
Ownership

- Generation and export FIT
- Contribution from householder
- Potential for RHI

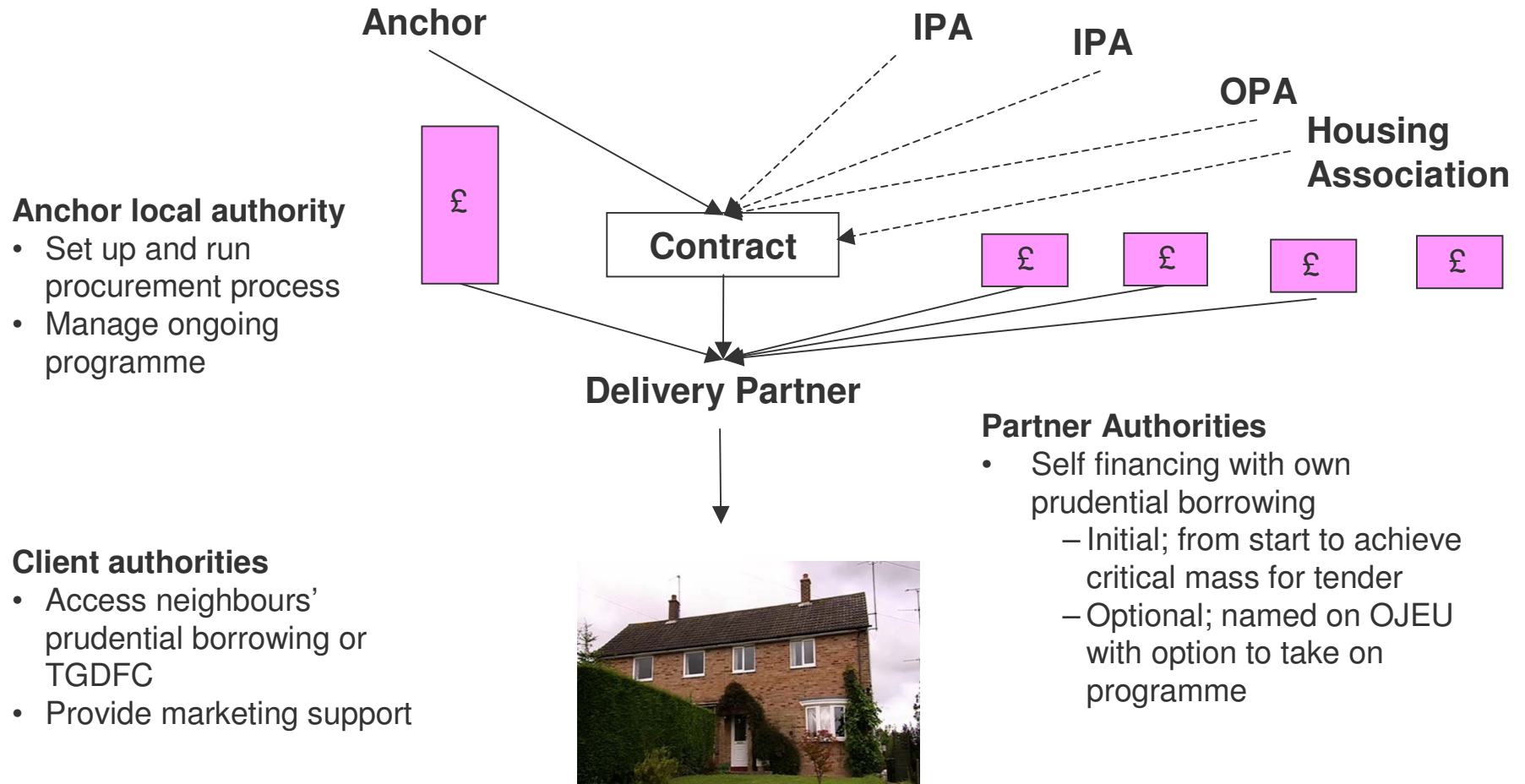
Finance vehicle

Local Authority Operating Model

-  Finance
-  Payments
-  Other

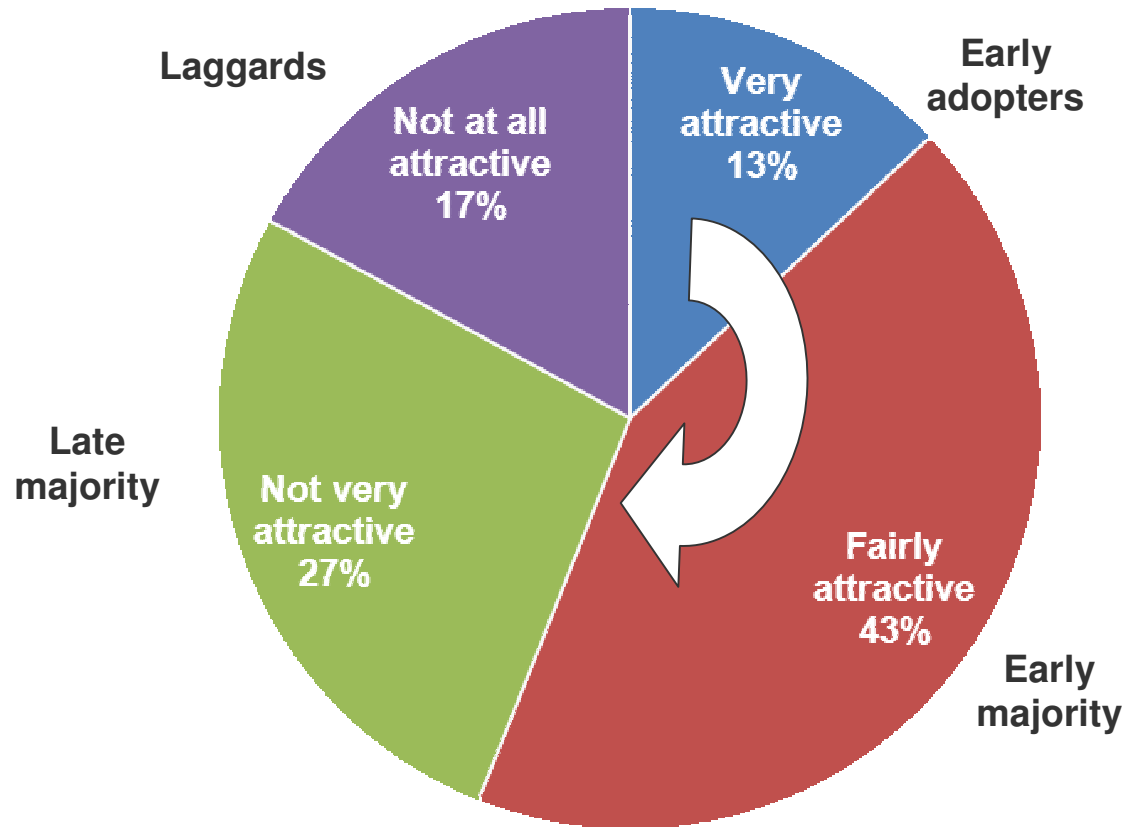


Green Deal LA joint approach



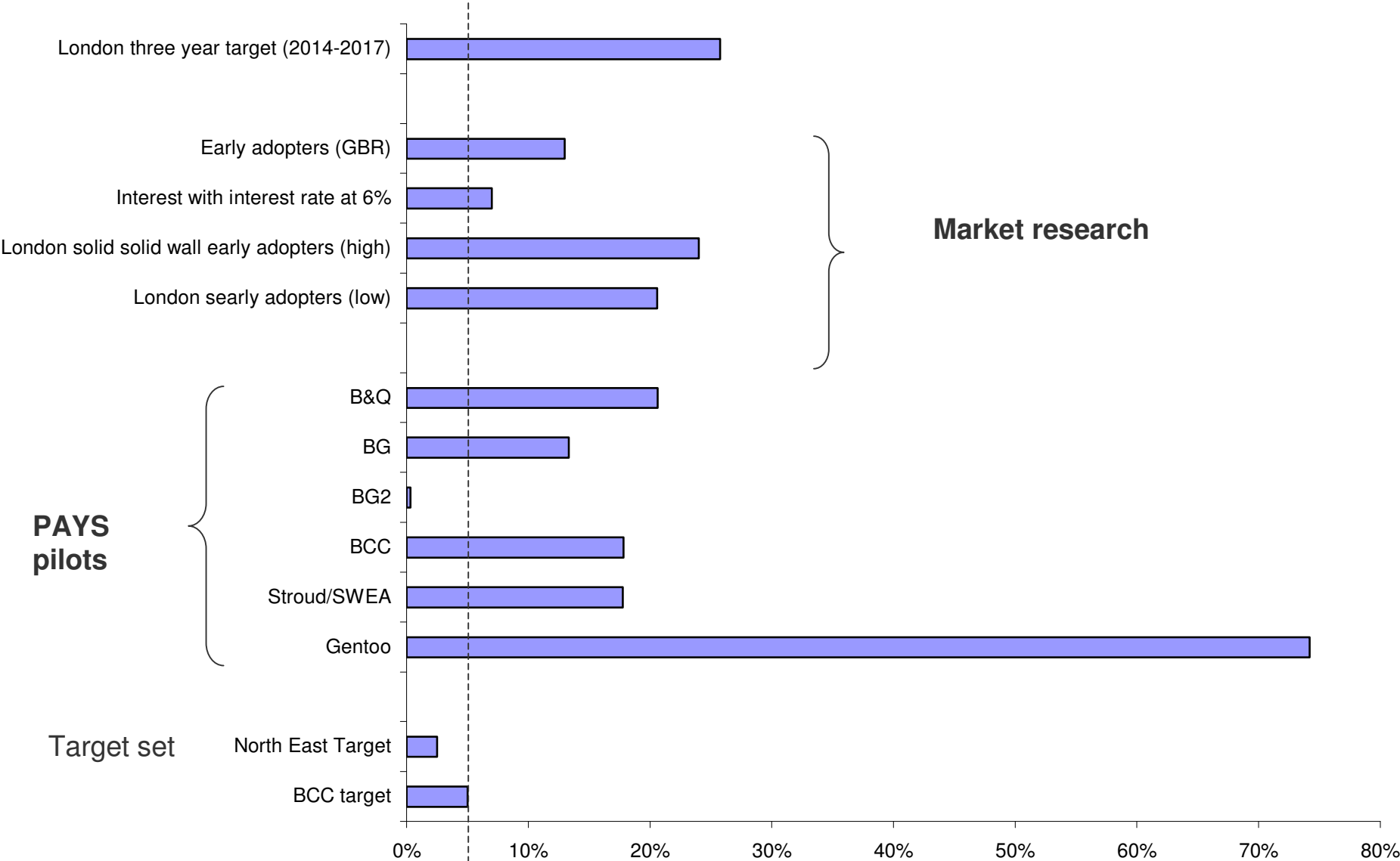
Green Deal early adopters

Nationally early adopters can account for up to 13% of the population – first target market

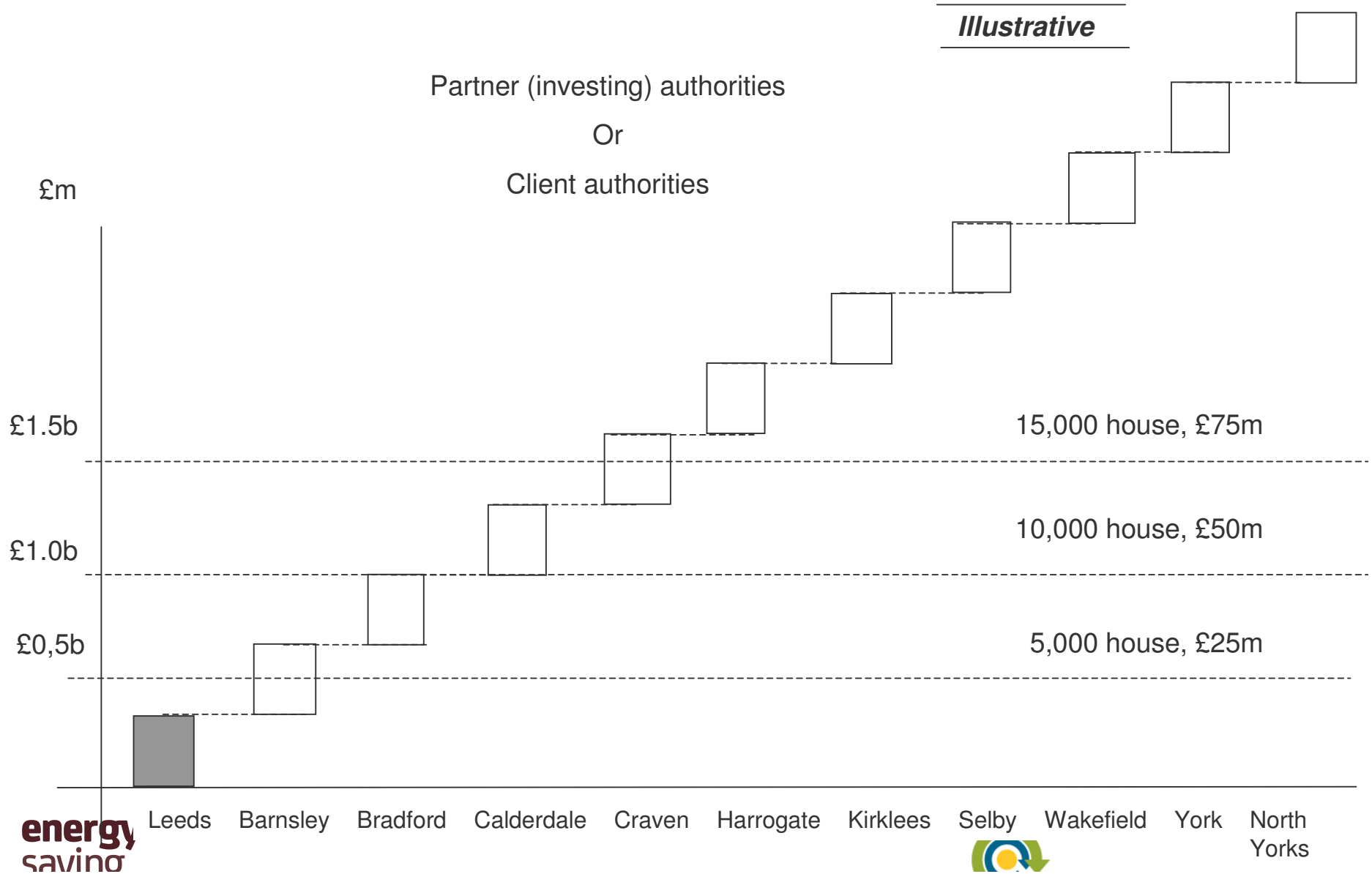


Source; Grand Designs; Great British Refurb Campaign

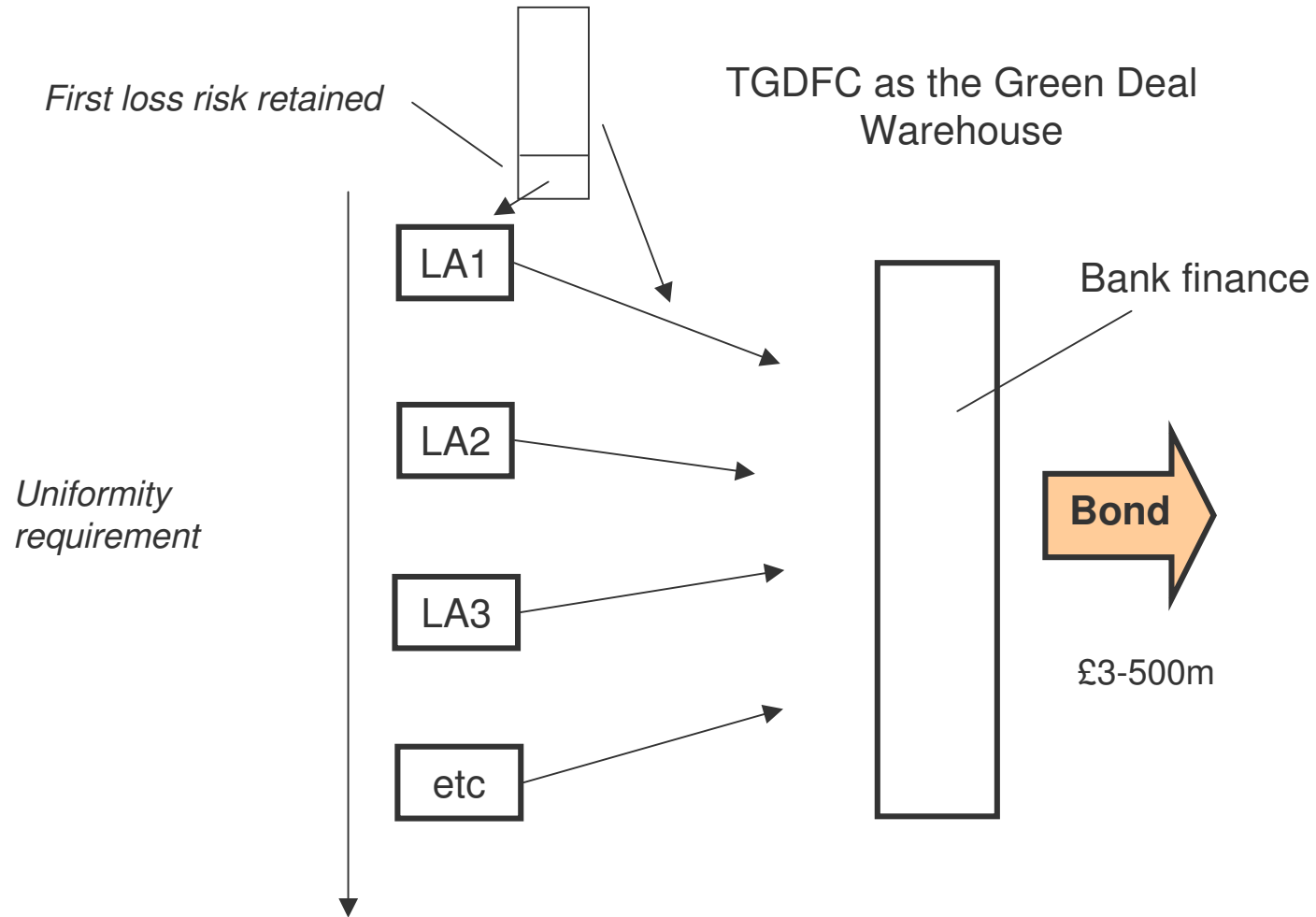
Adoption rates and targets



Total market size – 5% market penetration

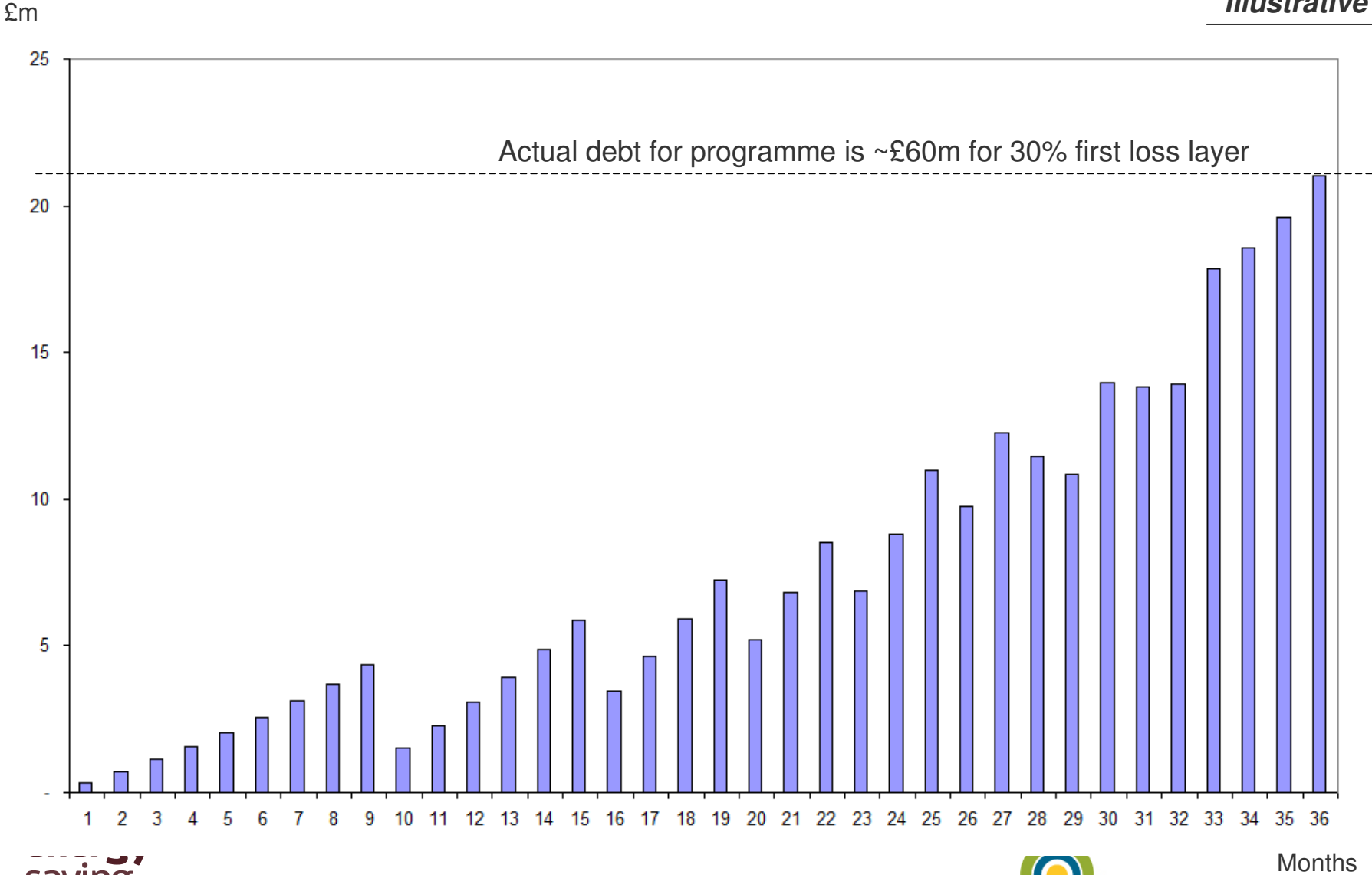


Local Authority Green Deal Warehouse

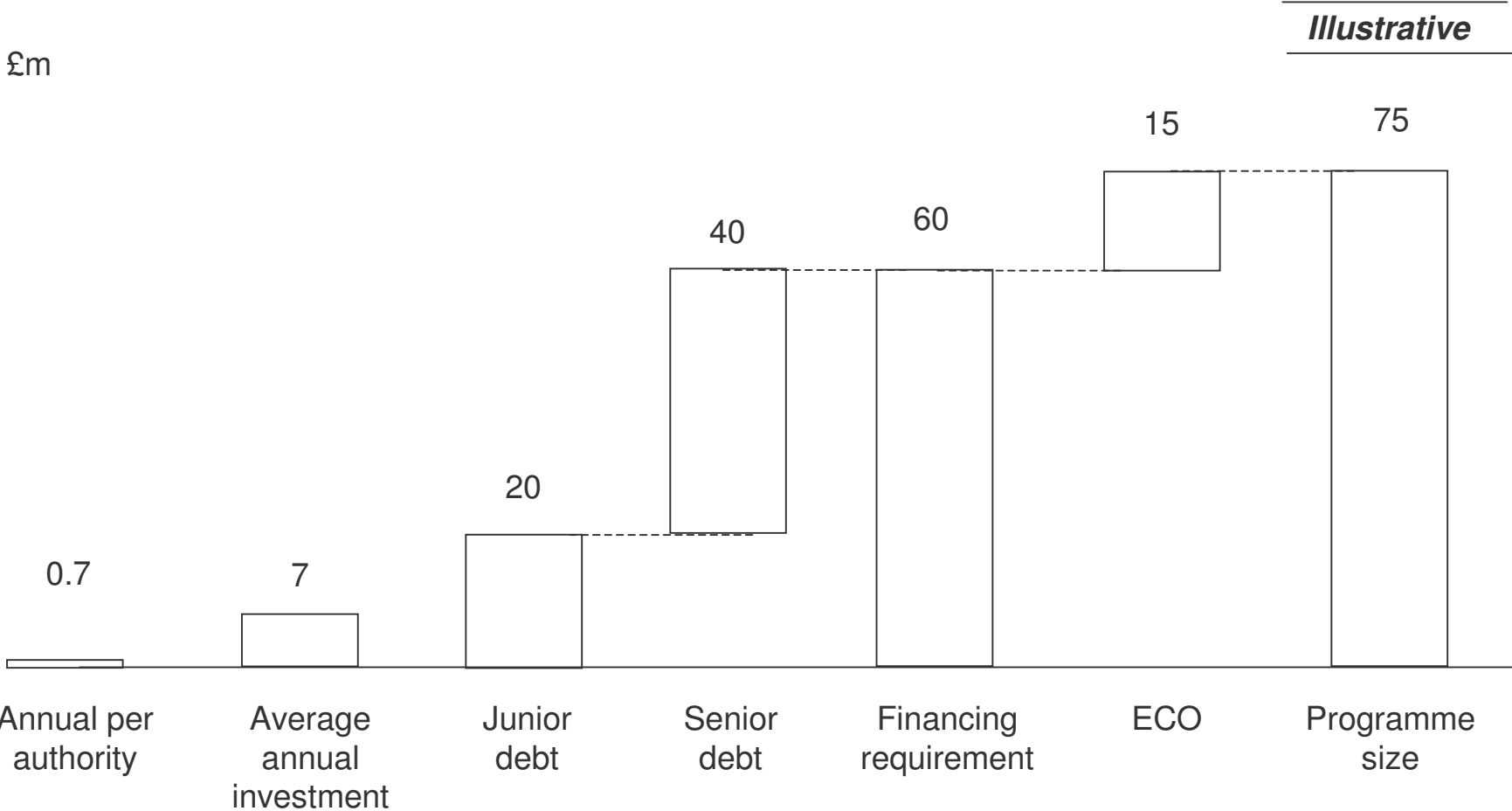


Refinancing in £5m packages

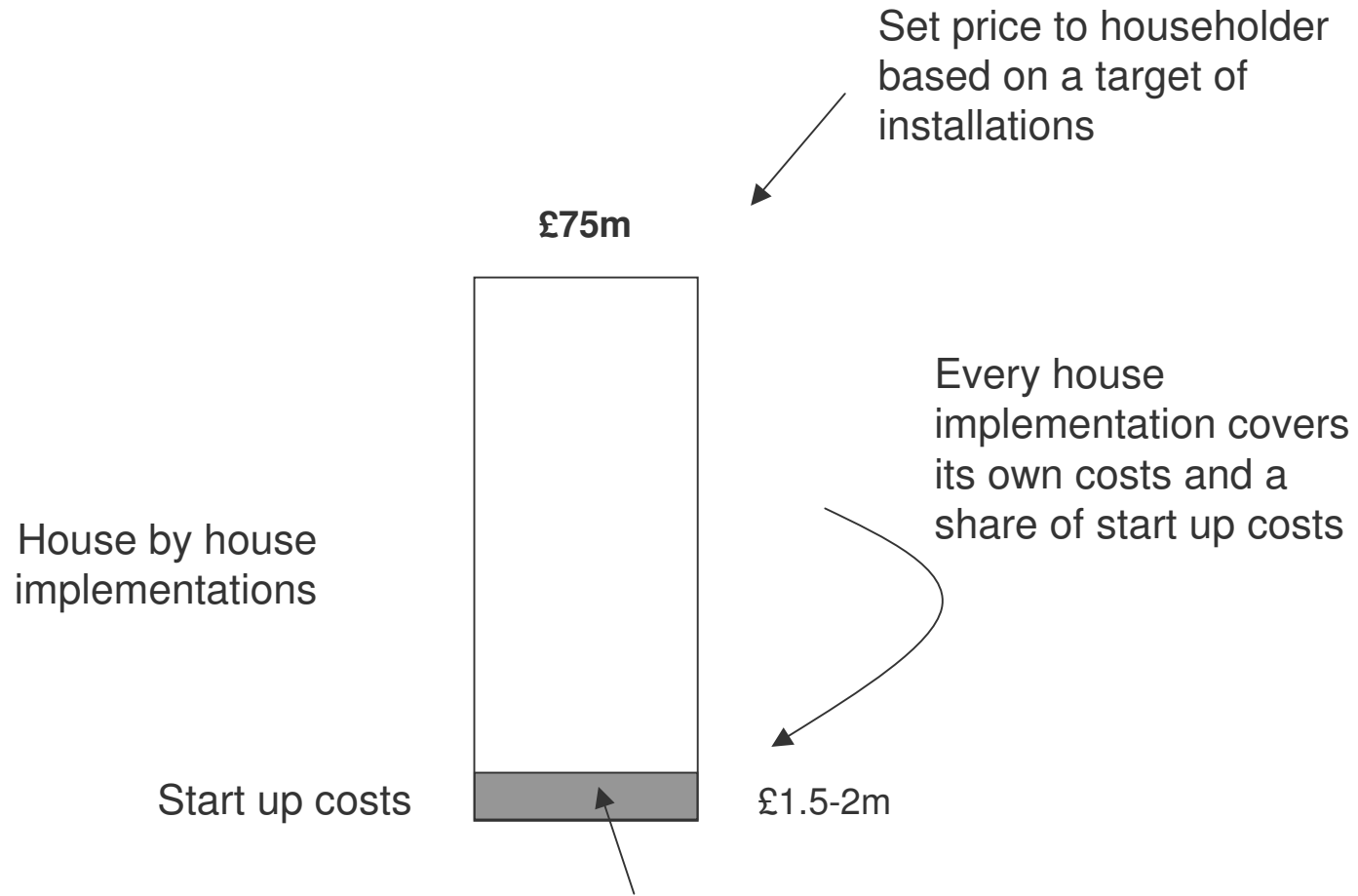
Illustrative



Capital requirements – ten authority programme



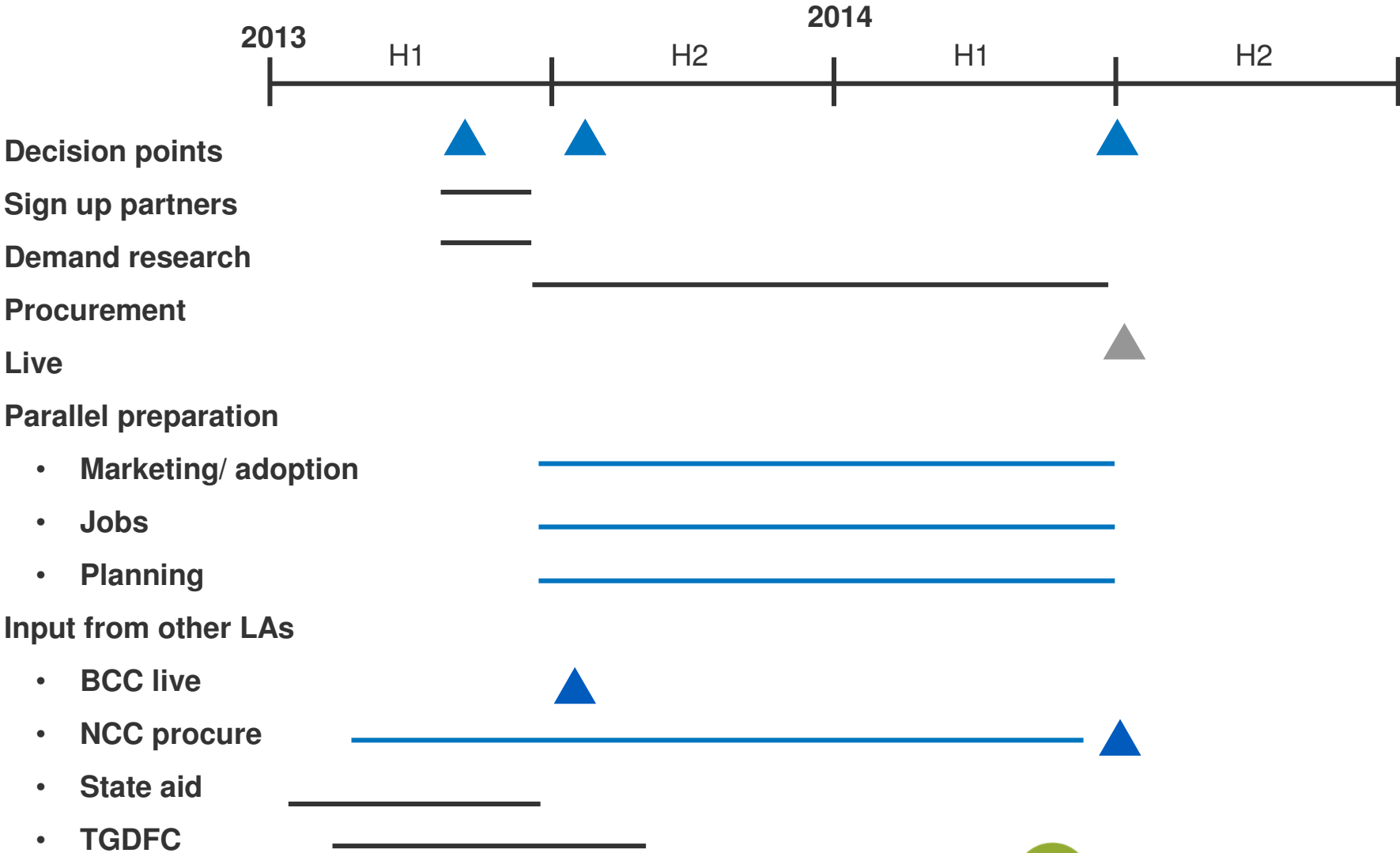
Adoption risk



- Business case
- Procurement
- Operational set up post procurement

Time scale and other activities

Provisional



Summary

- Local authorities have core role to play
 - Trusted by householders
 - Access to low cost finance
 - Fits with requirements on jobs, low carbon and fuel poverty
- Green Deal legislation is strong enabler
 - Private sector finance does not seem to be available without public sector support – ie local authorities and/or GIB
 - Private sector delivery sector is supportive
- Local authorities are taking the lead
 - Birmingham and Newcastle have enabled the programme
 - Other UK local authorities are expected to follow
 - Self-financing programme

Financing Eco-refurbishment

Christoph Harwood

Marksman Consulting LLP

Christoph.harwood@marksmanconsulting.co.uk