

## **Item: 13**

**Education, Leisure and Housing Committee: 12 September 2018.**

**Energy Company Obligation Flexible Eligibility.**

**Report by Executive Director of Education, Leisure and Housing.**

### **1. Purpose of Report**

To advise of Energy Company Obligation Flexible Eligibility funding and consider options for use.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That the Energy Company Obligation is an obligation on energy suppliers aimed at helping households cut their energy bills and reduce carbon emissions.

#### **2.2.**

That Energy Company Obligation Flexible Eligibility was introduced by Ofgem in the launch for Energy Company Obligation 2 Transition in 2017 which allowed energy suppliers to achieve up to 10% of their Affordable Warmth obligation by installing energy efficiency measures in properties declared eligible by local authorities.

#### **2.3.**

That, to date, the Council has utilised Energy Company Obligation Flexible Eligibility via the Home Energy Efficiency Programme for Scotland: Area Based Schemes programme to enhance the funding available through regular Energy Company Obligation, Home Energy Efficiency Programme for Scotland: Area Based Schemes and the Warm Homes Fund with 100 Declarations being approved.

#### **2.4.**

That a number of installers from outwith Orkney have asked the Council to develop a Statement of Intent to allow them to operate in Orkney using Energy Company Obligation Flexible Eligibility increasing the number of households they could target for measures.

#### **2.5.**

That the Council has not approved any requests from installers outwith Orkney, as the current route of utilising Energy Company Obligation Flexible Eligibility through the flagship energy efficiency scheme is considered the best route to deliver Energy Company Obligation Flexible Eligibility.

## **2.6.**

That Ofgem has recently announced the launch of Energy Company Obligation 3 which has a number of changes from Energy Company Obligation 2 Transition, which comes into force on or after 1 October 2018 and ends on 31 March 2022.

## **2.7.**

The options appraisal, as detailed in section 4 this report, with the preferred option being Option 1, namely that the Council should deliver Energy Company Obligation Flexible Eligibility in Orkney via the Home Energy Efficiency Programme for Scotland: Area Based Schemes contract.

**It is recommended:**

## **2.8.**

That the Council delivers Energy Company Obligation Flexible Eligibility in Orkney via the Home Energy Efficiency Programme for Scotland: Area Based Schemes contract.

## **2.9.**

That powers be delegated to the Executive Director of Education, Leisure and Housing to pursue additional options for Energy Company Obligation Flexible Eligibility, should opportunities arise over the coming years for the use of Energy Company Obligation Flexible Eligibility outwith the Home Energy Efficiency Programme for Scotland: Area Based Schemes contract that would bring significant additional benefit.

## **3. Background**

### **3.1.**

Energy Company Obligation funding is an obligation on energy suppliers aimed at helping households cut their energy bills and reduce carbon emissions.

### **3.2.**

The Council utilises Energy Company Obligation funding via the Home Energy Efficiency Programme for Scotland: Area Based Schemes contract to help reduce the cost of heating and insulation measures to households. Energy Company Obligation often provides the 'top-up' funding required to allow the installation to go ahead.

### **3.3.**

The Council works closely with Firefly Energi (Orkney) and Warmzones Community Interest Company, National Energy Action's charitable delivery arm, in maximising the amount of Energy Company Obligation available for Orkney installations.

### **3.4.**

Currently Firefly Energi (Orkney) is the only Orkney based contractor with access to Energy Company Obligation funding. There are a number of contractors based outwith Orkney who are operating in Orkney undertaking Energy Company Obligation installations. These contractors do not report the works they are undertaking to the Council.

### **3.5.**

Energy Company Obligation Flexible Eligibility was introduced by Ofgem in the launch for Energy Company Obligation 2 Transition in 2017 which allowed energy suppliers to achieve up to 10% of their Affordable Warmth obligation by installing energy efficiency measures in properties declared eligible by local authorities.

### **3.6.**

Energy Company Obligation 3, which comes into force on or after 1 October 2018 and ends 31 March 2022, focuses Energy Company Obligation on delivering measures to households deemed to be in fuel poverty and provides an additional focus on rural areas where 15% of Flex is to be targeted. Energy Company Obligation 3 also allows energy suppliers to increase the amount of Energy Company Obligation they can deliver via Energy Company Obligation Flexible Eligibility from 10% to 25% of their obligation.

### **3.7.**

With the increase in Flexible Eligibility spend to up to 25% and the increased focus on rural areas and households in fuel poverty, Orkney may well prove a very attractive option for contractors looking to deliver Energy Company Obligation measures.

### **3.8.**

An Energy Company Obligation Flexible Eligibility Statement of Intent gives local authorities the chance to draw in higher levels of Energy Company Obligation funding, help more households and give local authorities the chance to influence the criteria by which households are deemed eligible.

### **3.9.**

The Council was one of the first councils in Scotland to publish an Energy Company Obligation Flexible Eligibility Statement of Intent which outlines how the Council plans to utilise Energy Company Obligation Flexible Eligibility in Orkney.

### **3.10.**

To date the Council has utilised Energy Company Obligation Flexible Eligibility via the Home Energy Efficiency Programme for Scotland: Area Based Schemes programme to enhance the funding available through regular Energy Company Obligation, Home Energy Efficiency Programme for Scotland: Area Based Schemes and the Warm Homes Fund. To date around 100 Energy Company Obligation

Flexible Eligibility Declarations have been approved. The ability to utilise different funding streams has meant that in some cases households have received external wall insulation and a new heating system absolutely free, while the contribution that other households have needed to make has been vastly reduced.

### **3.11.**

A number of installers from outwith Orkney have asked the Council to develop additional Statements of Intent to allow them to operate in Orkney using Energy Company Obligation Flexible Eligibility so they can increase the number of households they can target for measures.

### **3.12.**

The Council has not approved any of these requests as officers feel the current route of utilising Energy Company Obligation Flexible Eligibility via the Council's flagship energy efficiency scheme, Home Energy Efficiency Programme for Scotland: Area Based Schemes, is the best route to deliver Energy Company Obligation Flexible Eligibility and maximise the benefit for households in Orkney.

### **3.13.**

The current Home Energy Efficiency Programme for Scotland: Area Based Schemes contract expires on 31 March 2019 and officers are currently in the process of drafting the specification required to tender the new managing agent contract, as approved by Committee in June 2018.

## **4. Options for Delivering Energy Company Obligation Flexible Eligibility**

### **4.1.**

There are 3 options for consideration:

- Option 1 sees Energy Company Obligation Flexible Eligibility utilised through the existing Home Energy Efficiency Programme for Scotland: Area Based Schemes programme.
- Option 2 involves a bespoke Energy Company Obligation Flexible Eligibility contract being procured.
- Option 3 involves the development of a generic Statement of Intent that would allow all contractors with access to Energy Company Obligation funding to undertake works using Flexible Eligibility.

### **4.2.**

Appendix 1, attached to this report, contains the positives and negatives of each option.

### **4.3.**

The preferred option is Option 1, as this gives the best and most transparent service to households within a contract environment which provides additional benefits and opportunities, as well as monitoring options.

## **5. Links to Council Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priorities of Thriving Communities and Quality of Life.

## **6. Links to Local Outcomes Improvement Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priorities of Strong Communities, Living Well and A Vibrant Economy.

## **7. Financial Implications**

### **7.1.**

The Council does not need to provide any match funding to allow Energy Company Obligation Flexible Eligibility to be used in Orkney.

### **7.2.**

Utilising Energy Company Obligation Flexible Eligibility requires additional staff time and there is no funding within Energy Company Obligation that can be used to help with this cost. However, utilising Energy Company Obligation Flexible Eligibility alongside Home Energy Efficiency Programme for Scotland: Area Based Schemes means that, although there is additional work utilising Energy Company Obligation Flexible Eligibility, it does feed into the wider Home Energy Efficiency Programme for Scotland: Area Based Schemes programme and, under the contract starting in March 2019, there will be some Home Energy Efficiency Programme for Scotland: Area Based Schemes funding which the Council can put towards staffing costs.

### **7.3.**

While the Council is responsible for signing off Energy Company Obligation Flexible Eligibility Declarations none of the actual funding involved passes through the Council. Financial transactions are between the Energy Company Obligation provider, usually a utility company, and the installer.

## **8. Legal Aspects**

In terms of the Housing (Scotland) Act 2001, the Council is required to produce a strategy on Fuel Poverty and the use of Energy Company Obligation Flexible Eligibility Funding is an aspect in support of that strategy.

## **9. Contact Officers**

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## **10. Appendix**

Appendix 1 – Options Appraisal.

## Energy Company Obligation Flexible Eligibility – Appendix 1 Options Appraisal

Options	Description	Positives	Negatives
<p>Option 1</p> <p>Incorporate with Home Energy Efficiency Programme for Scotland: Area Based Schemes contract</p>	<p>Deliver Energy Company Obligation Flexible Eligibility via the Council's Home Energy Efficiency Programme for Scotland: Area Based Schemes contract</p>	<ul style="list-style-type: none"> <li>• Enhanced delivery that maximises households access to all the different funding the Council has available for energy efficiency.</li> <li>• Improved targeting of funding and the ability to undertake a 'whole house' approach in some circumstances.</li> <li>• One phone number for households to call to access all Council funding, streamlining the process and maximising the benefits to households and ensuring they have access to all funding they would be eligible for.</li> <li>• Easier monitoring of household eligibility and measure</li> <li>• Funnelling all funding via large programme like Home Energy Efficiency Programme for Scotland: Area Based Schemes allows the Council the opportunity to shape improvements to the housing stock, for example by ensuring that as much work is undertaken on a property at one time, rather than single measures.</li> <li>• The easiest option for monitoring and supervising installations</li> <li>• Streamlined case review procedures combining all funding streams and options.</li> </ul>	<ul style="list-style-type: none"> <li>• Relying on one contractor to deliver all the Council's energy funding and projects can lead to issues with capacity</li> <li>• May mean that fewer companies have the chance to be involved in installations as there is only one programme</li> <li>• With all funding delivered by one contract there is a potential for any contract failure affecting all funding streams as all our eggs would be in one basket.</li> <li>• Other contractors may offer measures not covered through Home Energy Efficiency Programme for Scotland: Area Based Schemes</li> </ul>

Options	Description	Positives	Negatives
<p>Option 2</p> <p>Standalone Flexible Eligibility procured contract on top of delivery via Home Energy Efficiency Programme for Scotland: Area Based Schemes</p>	<p>Deliver Energy Company Obligation Flexible Eligibility via a specific Flexible Eligibility contract procured separately from Home Energy Efficiency Programme for Scotland: Area Based Schemes as well as via the Home Energy Efficiency Programme for Scotland: Area Based Schemes contract.</p>	<ul style="list-style-type: none"> <li>• The potential for increased capacity within the local industry as a second contractor would be involved in delivery of Energy Company Obligation Flexible Eligibility on Orkney through a contract with the Council</li> <li>• The opportunity for additional benefits to be drawn in from another contractor working on Orkney. For example, additional funding from another source that could help with other measures.</li> <li>• Potential for reduced pricing as contractors compete for works</li> <li>• Enhanced competition as more contractors operate in the market.</li> </ul>	<ul style="list-style-type: none"> <li>• There wouldn't be the ability to streamline all funding sources via the one route which can maximise benefit for households including the potential for multiple measures</li> <li>• Additional confusion for households as there would be two 'Council' schemes running at once with different contractors</li> <li>• Inefficient staffing capacity within Housing Services to undertake another procurement exercise and manage an additional contract.</li> <li>• Significantly more difficult for Council staff to offer guidance to households with two contractors offering similar things</li> <li>• The potential that Home Energy Efficiency Programme for Scotland: Area Based Schemes targets are not met as there would be the potential for the Energy Company Obligation Flexible Eligibility contractor to take case work away from the Home Energy Efficiency Programme for Scotland: Area Based Schemes programme.</li> </ul>



Options	Description	Positives	Negatives
<p>Option 3</p> <p>Open Statement of Intent allowing any Energy Company Obligation contractors to undertake works in Orkney if they so wish</p>	<p>Draft a generic Statement of Intent that covers all measures and can be used by any contractor with access to Energy Company Obligation funding</p>	<ul style="list-style-type: none"> <li>• Potential for huge capacity for works as numerous contractors from outside Orkney may move into the market and provide a significant number of measures.</li> <li>• Potential for reduced pricing as contractors compete for works</li> <li>• Enhanced competition as more contractors operate in the market.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council would not be able to monitor the quality of measures installed as there is no requirement under Energy Company Obligation Flexible Eligibility for the Council to do so. However, it is expected that if there are problems households would be quick to call the Council if they could not contact the installer.</li> <li>• The Council does not have the capacity to police an open approach to ensuring that each household put forward was actually eligible and that the measures proposed were actually appropriate.</li> <li>• Contractors would more than likely cherry pick the properties that would offer them large profits and ignore those that wouldn't. Options one and two would require the contracted delivery agent to take on some loss-making jobs with the expectation that the profit from other jobs would offset the loss made.</li> <li>• Housing Services do not have the staffing capacity to deal with a large rise in the number of Energy Company Obligation Flex declarations that would need to be signed if there was a larger increase</li> </ul>

Options	Description	Positives	Negatives
			<p>in applications from various contractors.</p> <ul style="list-style-type: none"> <li>• Confusion for households as various different players offer various options, some of which will include a household contribution. This would mean there would be no way of ensuring that households get good, never mind best value.</li> <li>• Further pressure on the housing market as additional installers from outside Orkney move into Orkney.</li> <li>• Potential for contractors to compete for the same customers, adding to confusing and workload for Council staff.</li> <li>• The potential that Home Energy Efficiency Programme for Scotland: Area Based Schemes targets are not met as there would be additional contractors operating in the market taking casework from the main Home Energy Efficiency Programme for Scotland: Area Based Schemes programme.</li> </ul>