# F:\ACE Admin\Stationery\logo\newlogo (for Google Apps).png

Westgate House

2a Prebend Street

London N1 8PT

020 7359 8000

research@ukace.org

Closer to home

**Developing a framework for greater locally led delivery of energy efficiency and fuel poverty services**

Prepared by the Association for the Conservation of Energy, CAG Consultants, the Centre for Sustainable Energy and Dr Joanne Wade for Citizens Advice

# Executive summary

Citizens Advice considers there is a powerful economic, social and environmental case for an ambitious Britain-wide home energy efficiency programme, which prioritises low income households and is both broader and deeper than current programmes. There is widespread consensus that locally led delivery of home energy efficiency programmes and area-based approaches (ABAs) should play an important role in achieving this ambition, and that this is done as cost effectively as possible. There is also a renewed and growing interest in the wider decentralisation agenda.

A local delivery approach is one in which the people from an area are involved in delivering energy efficiency measures in that area, supported by a framework (or frameworks) that enables or requires this to happen. The scale of the area is open to debate, as are the organisations involved in delivery and their roles. An ABA involves the delivery of energy efficiency measures to all or most of the households in a defined spatial area, rather than the targeting of individual households. The size of the spatial area involved is also open to debate.

Proposals for locally led delivery will only be credible if both the benefits and the limitations of these approaches are recognised, together with the merits and limitations of existing delivery methods, in particular the Energy Company Obligation (ECO). Citizens Advice therefore commissioned a research consortium, headed by the Association for the Conservation of Energy (ACE), to investigate models for delivering energy and fuel poverty services at the local level. This is the report of the research.

The research combined literature review, expert stakeholder interviews, a survey of local authority officers, regional workshops and a final policy workshop to test emerging ideas. This executive summary brings together the proposals developed for the design of a Britain-wide framework, with variations in Scotland and Wales, for the local delivery of energy and fuel poverty services.

## The proposals

The UK government should give local authorities in England responsibility for overseeing the delivery of home energy retrofits to low income and fuel poor households, as is already the case in Scotland. Councils should be free to choose the methods through which they and their partners meet this responsibility. The UK government should underpin the responsibility with a resourced statutory duty on councils in England, while the Scottish government should continue to use the existing concordat between the government and local authorities to oversee local delivery. In Wales, the Welsh government could use the existing arrangements for delivering Arbed to oversee the new funds. The UK government should also make sure consumers have access to free local energy advice, both specialist and generalist, as a key component of the new delivery arrangements.

The UK government should raise funds for the new delivery arrangements through a levy on domestic energy bills, which would partially or fully replace the current supplier obligation model. Consumers should not therefore notice any difference to the size of their bills as a result of the new arrangements. The UK government should allocate most of the funds automatically to local authorities, based on need in the local area, and then allocate the remainder via a competition open to all interested organisations, to foster improved delivery practice and efficiency.

The UK government should appoint an existing body to oversee the new delivery arrangements, check progress, monitor compliance and provide support to local authorities in England. The UK government itself should take responsibility for allocating funds. The Welsh and Scottish governments should review whether their current arrangements provide the support required.

The sections below expand on these proposals and highlight areas that require further consultation and development.

## Governance and roles

Local authorities are democratically accountable bodies with relevant local knowledge and important responsibilities for housing, health and wellbeing, and economic development. There are, therefore, strong grounds for giving them responsibility for overseeing programmes to tackle fuel poverty within a national framework of local delivery of energy efficiency and fuel poverty services.

The UK government should underpin the framework with guaranteed funding to ensure a minimum level of energy efficiency and fuel poverty activity across all local areas. The framework could build upon the existing concordat between the Scottish government and local authorities in Scotland, and the Welsh government’s arrangements for delivering Arbed in Wales. The UK government should introduce a new statutory duty on local authorities in England to tackle fuel poverty and appoint an existing body to oversee the arrangements – see Box 1.

Oversight of local delivery should be relatively straightforward in Scotland and Wales, since it could build upon the existing arrangements for delivering the area-based schemes within the Home Energy Efficiency Programmes for Scotland (HEEPS:ABS) and the Arbed scheme in Wales.

The requirements placed on local authorities in England could be process or output-based, or a combination of both; this is an issue that requires further development. A sufficiently long, government-set timeframe, such as five years, would help ensure that local authorities build up the skills and capacity needed to fulfil these requirements. These needs are particularly acute in the areas of procurement, housing stock and household needs assessment, and applying for funding.

Box 1: Recommended role for delivery oversight body in England

* Work closely with all relevant bodies that link local authorities, such as the Local Government Association’s Climate Local network, National Energy Action’s regional fuel poverty forums, the Carbon Action Network, and existing local authority consortia
* Provide support, mentoring and guidance to individual local authorities – especially in the process of bidding for competitively allocated funding and the preparation of plans to spend automatically allocated funds; this will also help local authorities build their ability and capacity to lever in other sources of funding
* Help broker regional and sub-regional partnerships between local authorities
* Develop and refine template procurement processes to streamline and accelerate local authorities’ procurement
* Aggregate, monitor and report scheme outputs, including spot-checking compliance with standards
* Evaluate schemes and their outcomes
* Develop case studies
* Make recommendations about the appropriate balance between automatic and competitive allocation of funding, as the capacity of local authorities to deliver increases
* Make recommendations for the guidance governing funding allocation, including the need for programmes to address challenging circumstances and wider policy priorities
* Make sure the above functions inform the design of the support they provide to local authorities

Alongside guaranteed funding for councils, the UK government should allocate further funding through a competitive process, open to all, to support best practice and efficient delivery. This will enable registered social landlords (RSLs), community energy organisations and other contractors to participate in locally led delivery without having to go through local authorities.

The UK government should take responsibility for allocating and administering funds to local authorities in England, with the Scottish and Welsh governments taking on similar responsibilities in their nations.

## Allocation of funding and encouraging added value

Automatic allocation of a large proportion (around 80 per cent) of the available funding is necessary to avoid the risk of significantly differing levels of action in different local areas, and to help local authorities set up the organisational arrangements required to oversee local delivery.[[1]](#footnote-1) The remaining proportion should be allocated competitively, to foster best practice and delivery efficiency. The UK government should make this funding available to all organisations, and award funds according to a range of criteria, not just cost efficiency.

Local authority capacity to deliver would be a key driver of differing levels of action in the absence of allocated funding: as this capacity increases over time, it should therefore be possible to reduce the proportion of funding that is automatically allocated. The delivery oversight body could review progress and recommend the rate at which the funding split moves towards competitive funding.

Determining need, and hence the amount of money allocated to each local authority, will require the use of best available national data on numbers of households in fuel poverty, the extent of hard-to-treat properties and other factors that may affect delivery costs, such as the degree of rurality, in local areas. This is similar to the approach currently taken in Scotland. The calculation method should evolve over time to incorporate newer, and ideally increasingly reliable, datasets.

Local authorities should be free to determine how they meet the requirements placed on them, using the funding available. However, the proposed delivery body should provide non-binding guidance to explain how to best deploy the funding. This guidance should focus on challenging circumstances, including delivery of whole-house retrofits, delivery in remote areas, and supporting hard-to-reach households.

Criteria for the competitive allocation should be flexible and set out in clear guidance. The primary criteria for funds should include:

* demonstrated local need (for local authorities applying)
* demonstrated ability to deliver
* best value for money in reducing (the severity of) fuel poverty.

Secondary criteria could include: the ability to meet multiple local objectives in addition to tackling fuel poverty, such as carbon reduction, health benefits, local employment, poverty reduction and regeneration. The reduction of health inequalities, potentially achieved in collaboration with Health and Wellbeing Boards and the devolved near-equivalents in Scotland and Wales (such as Local Service Boards and Community Health Partnerships) should be chief among the secondary criteria.

The UK government will need to make sure that local delivery is complemented by a national support programme for households in need that do not meet the eligibility criteria for their local schemes. This central programme should accept referrals from local networks and local schemes. Potential models for such programmes exist in Scotland (Energy Assistance Scheme)[[2]](#footnote-2) and Wales (Nest). These support programmes will require a separate budget, administered and delivered separately, and should be in place in each of the three nations, building on existing programmes as appropriate.

## Funding the framework

The most viable option politically for funding a local delivery framework is to raise funds via energy bills. As local authorities, not energy suppliers, would be required to deliver, the current ECO is ill suited as a funding mechanism.

The primary alternative, to pay for a Britain-wide fund out of general public expenditure, is viewed as preferable by many of those concerned about the regressive nature of funding programmes from energy bills. However, it is less politically viable at the present time, although public expenditure-funded programmes do currently exist alongside the ECO: The Home Energy Efficiency Programmes for Scotland (HEEPS);[[3]](#footnote-3) Nest and Arbed in Wales; and the Green Deal Home Improvement Fund (GDHIF) across Britain. It is also, on its own, less able to guarantee a framework’s annual funding levels over the longer term, although the use of a statutory duty for five years would mean that funding would have to be guaranteed over that period (at least for England).

The consultants therefore propose that primary funding for the framework is raised via a fixed levy per kilowatt hour (kWh) of gas and electricity supplied to every domestic consumer in Britain. A similar approach is in place for Northern Ireland’s Sustainable Energy Programme. The levy should start in the last financial year before the framework programme for local delivery commences. Unlike the ECO, under which energy suppliers are only obligated to deliver carbon and heating cost reductions if they have 250,000 or more domestic customer accounts (because it would be disproportionately burdensome for smaller energy suppliers to deliver), the levy would not require a company size threshold because energy suppliers would not be obliged to deliver. It would be raised from all consumers via all energy suppliers. The levy approach would require a change in primary legislation.

A levy, like the ECO, is still a regressive way in which to fund a programme. However, it can be designed to be less regressive: the levy could be applied only above a certain energy consumption threshold, and the local delivery approach can ensure a fairer distribution of investment than under the ECO. Consumers should not notice any difference with respect to the impact of the levy on their bills since it would approximate to the notional impact of the current ECO on bills (approximately £30 per household per year on average).

Citizens Advice’s recommendation, to raise the energy performance certificate (EPC) of all low income households to a standard of C by 2025, is estimated to cost £2.6 billion per year in capital spending in England alone.[[4]](#footnote-4) Current ECO expenditure is estimated at around £0.8 billion per year. Given that there is very little political or consumer appetite to raise a higher level of funds from energy bills, it is clear that further funding is required. Possible sources include carbon tax revenues, national infrastructure investment budgets, energy company fines, surpluses in closed accounts that cannot be repaid to energy consumers and ‘allowable solutions’ funding[[5]](#footnote-5).

## Relationship to other programmes, advice provision and managing a transition

Supplier obligations can successfully deliver cost-effective carbon reductions at scale, but have been less successful at delivering the deep retrofits required to raise the homes of low income households to an EPC standard of C. Whether there is a role for a continuing supplier obligation alongside the proposed levy is a question outside the scope of this project.

However, the framework governing local delivery should encourage local schemes to lever in finance from other schemes, including Green Deal finance, feed-in tariffs and the Renewable Heat Incentive (RHI), as well as regeneration and public health programmes. Local authorities and their delivery partners should be free to decide whether and how other programmes can help them to deliver against requirements. Levy funding could be used to top-up the existing national frameworks that govern and support local delivery in Scotland and Wales.

The smart meter rollout programme could potentially complement a local delivery framework. However, with energy suppliers (who have geographically dispersed customers) leading the smart meter rollout, there is currently limited scope for close integration with local authorities. Recent research undertaken for Citizens Advice puts forward a model of how local schemes could work with energy suppliers to make use of any opportunities as part of the rollout.[[6]](#footnote-6)

National and local energy advice should play an important role within the local delivery framework. The delivery oversight body (and equivalents in Scotland and Wales) should provide or procure nationally recognisable marketing campaigns and telephone and web-based advice services, and should hold information on local schemes and local advice and support as well as provide information about, and referrals to, national support programmes. Local generalist advice providers, such as Citizens Advice Bureaux, should help provide such advice. The provision of advice about local schemes should be tailored to each area, assisted by the delivery oversight body’s guidance if needed. However, local advice must refer households to the relevant national support programme where appropriate.

The transition to the new local delivery framework will face tight timescales, given that the ECO is currently only set to run until March 2017 and that some suppliers may meet their targets well before this. This potential for an early finish to ECO delivery, as well as the intention to increase Scottish government control over the future deployment of supplier obligation programmes, presents an opportunity to bring forward a managed transition to a levy-funded local delivery framework. This will require early consultation with stakeholders and the launch of a pilot in April 2016, running the local delivery framework in parallel with the ECO for one year. During the pilot, local authorities with ‘ready-to-go’ schemes in their areas could deploy these whilst the delivery oversight body could begin providing support to other local authorities. During this time, the level of delivery under the framework is likely to be relatively low.

## Implications for the supply chain and quality assurance

The introduction of a five-year framework for local delivery could offer better stability, transparency and predictability if the targets for local authorities are designed well. This could result in increased supply chain confidence, and stimulate rapid investment in the skills and capacity required to deliver relatively complex products and services, such as solid wall insulation (SWI) or whole-house retrofits.

Local authorities’ procurement processes are, however, a concern, with respect to the funding automatically allocated to local authorities under the framework. Many consider these processes are overly bureaucratic and slow, and risk precluding many smaller contractors (many of whom have also struggled to gain access to the ECO) from participating, precisely when more might be required of them. This underscores the importance of finding and accelerating ways to streamline local authority procurement – an area in which the delivery oversight body should play a central role.

Locally led delivery is likely to strengthen informal quality assurance. This is because local authorities’ and local contractors’ reputations are on the line, and because it should be easier for households to seek redress locally. However, without energy suppliers responsible for delivery, formal quality assurance will need to evolve from the system currently used for the ECO. Formal quality assurance should be made a condition of funding under the framework but, if not done efficiently, could result in making local authorities’ procurement processes more complex and time-consuming. However, a requirement that local authorities procure the services of contractors accredited through a national accreditation scheme provides a simple way forward, and one that the delivery oversight body could check compliance with.

Two issues will need addressing: effective enforcement of compliance with standards, and reduction of the barriers to participation from contractors. Existing accreditation standards – principally Publicly Available Specification (PAS) 2030, under the Green Deal framework – need to be strengthened and better enforced. The latter could be achieved without increasing costs by simplifying and strengthening existing standards, and through a coordinated and a refocused monitoring regime to enforce these standards. This would protect consumers more effectively, while avoiding the complexity of introducing extra layers of accreditation. On formal codes of practice and formal redress, the Green Deal Code of Practice could provide a basis, but loopholes within it need closing and the complaints system made more robust.

Simplification, as with a long-term framework that increases supply chain confidence, should also serve to lower the barriers to entry for smaller, more local contractors. The barriers to entry would be lowered both for becoming accredited and for bidding for local authority contracts – in this way also benefitting informal quality assurance and helping to develop the local supply chains that need to play their part in local delivery. In addition, simplifying and accelerating the process for accrediting new measures and associated accreditation standards under the Green Deal framework would lower the barriers to technological innovation – often the domain of smaller businesses.

## Issues requiring further consultation and development

There are a number of elements of the proposed model that would benefit from further development:

1. How the requirement on local authorities is expressed; should it be output or process-based, or a combination of the two? How should an output-based requirement be expressed; for example, as a percentage reduction in low income households living in homes with an EPC of D or worse, or as a percentage reduction in the aggregate fuel poverty gap? How could a process-based requirement be expressed; for example, as a need to develop long-term credible business plans for tackling fuel poverty? And how could compliance with this be monitored?
2. What penalties and/or rewards should there be for local authorities not meeting/exceeding requirements? Should these be financial and/or reputational?
3. How could a levy be structured such that it is less regressive than the ECO?
4. How can energy consumption fluctuations, and hence the varying amount that the levy would raise each year, be balanced with the need for a predictable funding stream?
5. A levy-funded framework would guarantee the funding available but not the outputs that it would produce (unlike the ECO). How can this problem be minimised?
6. How should national support programmes be funded? From an increased fixed levy or from general public expenditure? If funding were raised Britain-wide, how would this fit with the programmes already in place in Scotland and Wales?
7. Assuming that a local delivery framework is primarily about tackling fuel poverty, what role is there for a continued supplier obligation? How will a sufficient level of carbon savings from household programmes as a whole be delivered?
8. What is the optimal balance of resources and roles between the different programmes: local delivery, supplier obligations, pay-as-you-save financing and national support programmes.
1. The Scottish and Welsh governments should decide how best to integrate the new funds with their existing programmes. [↑](#footnote-ref-1)
2. The Scottish government recently announced that it will replace the Energy Assistance Scheme with a new, expanded scheme in September 2015, yet to be named – see http://news.scotland.gov.uk/News/Tackling-fuel-poverty-186d.aspx [↑](#footnote-ref-2)
3. Deployed by the Scottish government as the *Home Energy Efficiency Programmes for Scotland: Cashback Vouchers Scheme* (HEEPS: Cashback). [↑](#footnote-ref-3)
4. (Guertler 2014b) [↑](#footnote-ref-4)
5. ‘Allowable solutions’ is the provision under which developers of new housing fund retrofits in existing homes to help meet the zero carbon standard for new homes. [↑](#footnote-ref-5)
6. (Citizens Advice 2014) [↑](#footnote-ref-6)