

# Energy spending round submission



April 2013

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## 1. Summary of key proposals

**Joined up funding** - the Government should pool funding in a single pot to maximise its value and reduce the costs of administering multiple funding streams.

**Access to the Energy Company Obligation (ECO) brokerage** – local authorities should be enabled to place their energy efficiency projects on the ECO brokerage whether or not they are Green Deal providers.

## 2. Context

The case for investing in the energy efficiency of our buildings has three elements:

- Reducing carbon emissions: Implementing energy efficiency measures could reduce direct residential emissions by 23 per cent and indirect emissions by 36 per cent by 2020, a significant impact given that housing accounts for a quarter of the UK's greenhouse gas emissions.
- Helping vulnerable households: Fuel price rises are combining with flat incomes to increase fuel poverty, with 3.5 million households living in fuel poverty in 2010 compared to 1 million households in 2004. Increased fuel efficiency is a better-targeted public policy measure to tackle than blanket intervention on prices or incomes.
- Preventing winter deaths and poor health: The Marmot Review Team estimated that 21.5 per cent of excess winter deaths can be attributed to living in the coldest quarter of housing. The cost to the NHS of treating cold-related illness has been estimated at over £1 billion a year.

Councils have played the dominant role in energy efficiency schemes, delivering over half the energy efficiency programmes in the country. They are seeking to do more. For example, many are collaborating to implement energy efficiency measures across a wider area to achieve economies of scale (eg Yorkshire Energy Partnership Ltd); a number of councils are exploring the potential to generate cheaper energy themselves (eg Islington Council's Decentralised Energy Programme); and over 25 councils are involved in collective switching schemes to help residents find cheaper energy tariffs, with more than 80 projects in the pipeline.

## 3. Sources of funding

There are four sources of funding available for energy efficiency measures, other than direct grants to and independent action by householders themselves:

- Central government-funded schemes: The major grant schemes that local authorities were able to draw from including Warm Front (£100 million in 2012) and the DCLG Private Sector Renewal Grant (£308 million in 2010/11), are now closed. In 2012/13, a total of £55 million was available through a number of small-scale bid-based schemes

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(eg DECC's £25 million Fuel Poverty Fund, £10 million Green Deal Pioneer Places Fund, and £5 million "Cheaper Energy Together" scheme; DoH's £20 million Warm Homes, Healthy People fund). DECC also administers the Salix Energy Efficiency Lending Scheme, which makes interest-free loans available to councils.

- Funding provided by councils from their own budgets: A survey of councils in 2012 revealed that the 21 councils who responded had planned to spend £27 million on energy efficiency from 2008 to 2012<sup>1</sup>. Since this is not a statutory service, we can expect it to reduce by much more than the headline 40 per cent reduction in grants to local government, and as the LGA's future funding outlook for councils suggests, is unlikely to be sustainable at all in the medium term.
- The Energy Company Obligation: Worth £1.3 billion annually, the ECO is funded by the six major energy suppliers to support measures for low income households.
- Finance from consumers through Green Deal loans: The Green Deal Finance Company has announced £244 million of the £300 million needed to finance the first Green Deals.

Continued investment in social housing stock is essential to maximise the impact on fuel poverty and poor health since social housing tenants are likely to be on lower incomes and vulnerable to fuel poverty. Without that preventative investment we will face higher costs and lower-value spending in the future.

In addition, councils have a key role to play in delivering programmes in the private sector. For example, by developing an area wide approach, the Kirklees Warmzone initiative has insulated 51,000 homes and generated £80 million in economic benefits.

## 4. Joined up funding

Channelling funding for energy efficiency schemes through small, short term, competitive funding pots is an inefficient use of council resources and capacity. It works against longterm, joined-up investment strategies and consumes time and effort in bidding application and monitoring processes. **The Government should pool funding in a single pot to maximise its value and ensure that councils can focus their resources on tackling energy efficiency rather than bureaucratic bidding processes.**

## 5. Enabling councils to access the Energy Company Obligation (ECO) brokerage

Since ECO is now the major source of finance for energy efficiency schemes, it is vital to make those resources stretch as far as possible. ECO resources can currently be accessed through bilateral negotiations with the energy suppliers or through the new brokerage mechanism. The

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<sup>1</sup> Consumer Focus "Going Local", 2012

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brokerage functions as a blind auction that allows ECO-obligated energy companies to bid for projects that would deliver the energy savings to meet their obligation. The brokerage has the potential to drive costs down and support innovation by bringing more delivery agents into the market and fostering competition. However, at present, trading on the brokerage is restricted to Green Deal providers.

**Enabling local authorities to place their energy efficiency projects on the ECO brokerage, whether or not they are Green Deal providers, would ensure that ECO funding yields the best return in terms of public health and fuel poverty.**

- First, the ECO brokerage service needs a high volume of measures to be transacted in order to be cost-effective. Councils are already the major delivery agents in the market so bringing them into the brokerage would help to generate more competition, increasing the likelihood that costs will be driven down.
- Second, councils are also best-placed to facilitate economies of scale by supporting area-based schemes, an approach which DECC has identified as being most cost-effective, leading to efficiency of delivery.
- Finally, energy companies have also indicated that they find it difficult to cost-effectively identify householders that will qualify for the Affordable Warmth element of the ECO, which targets low income and vulnerable households. Council schemes often target the residents who qualify for this element so allowing these to be placed on the brokerage could make it easier for the energy suppliers to reach hard-to-find households.

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