

CABINET

12 July 2022

Title: Energy Company Obligation (ECO4) Programme	
Report of the Cabinet Member for Regeneration and Economic Development	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Strategic Leadership Director: Abi Gbago, Strategic Director of Inclusive Growth	
Summary: ECO4 is the fourth and final iteration of the Energy Company Obligation (ECO) which was established in April 2013 and requires energy suppliers with a customer base of 150,000 or more to fund the installation of various energy efficiency measures such as heating and insulation works for qualifying homeowners, social tenants and private renters. It succeeds the ECO3 programme which came to an end in March 2022. Barking & Dagenham previously procured E.ON Energy Services Ltd to be its delivery partner for ECO3 in 2019. The partnership led to the creation of the Cosy Homes scheme, responsible for more than 1,100 free installs across all tenures in the borough between 2020/22. ECO4 presents an opportunity for the Council to roll-out further energy efficiency measures and support residents in staving off higher levels of fuel poverty and providing greater thermal comfort against an unprecedented backdrop of the highest fuel prices ever known. Barking & Dagenham now has the highest estimated fuel poverty in England with 22.5% of households (16,738 homes) in 2021 believed to be suffering from some level of unaffordability of their energy bills. This is likely to be exacerbated in the Autumn. To build upon the legacy of the ECO3 Cosy Homes scheme and optimise the delivery of further measures within the Borough, the Cabinet is recommended to test the supplier market through an expression of interest exercise (similar to that approved previously), and nominate a preferred partner to deliver a further roll-out measures over a four-year period. The partner will fully fund all measures and the Council will simply act as conduit to allow residents to apply for free measures from an extended Cosy Homes scheme, which has been a successful, well trusted and recognised scheme	
Recommendation(s) The Cabinet is recommended to: (i) Approve the expression of interest route to test the market and find a delivery partner to ensure the Council maximises the number of free energy efficiency	

installs under ECO4 across all tenures, subject to the endorsement of the Procurement Board;

- (ii) In respect of Council owned properties, waive the requirement to tender under paragraph 28.5 of the Council's Contract Rules in order for the Council to enter into a contract with the identified company to carry out energy efficient installs under ECO4, where appropriate; and
- (iii) Delegate authority to the Director of Inclusive Growth, in consultation with the Cabinet Member for Regeneration and Economic Development, the Chief Legal Officer and the Director of My Place, to appoint the successful bidder and enter into the contracts and all other necessary or ancillary agreements set out in this report, including accessing grant opportunities

Reason(s)

The proposals contribute to the Council's commitments to become a Net Zero organisation by 2030 and support the wider borough to become carbon neutral by 2050. The Draft Zero Carbon Roadmap sets out ambitious targets for housing stock to be decarbonised, including fabric first insulation upgrades and the decarbonising of heating systems.

1. Introduction and Background

- 1.1 The Climate Change Act 2008 (2050 Target Amendment) Order 2019 legislated for the UK's transition to a low-carbon future within 30 years and meet the international agreements agreed in Paris to limit the growth in harmful carbon and greenhouse gas emissions to no more than 1.5°C above pre-industrial levels and this was further reiterated at the Glasgow COP26 last year.
- 1.2 Emissions from the built environment account for the majority of the borough's carbon footprint, and domestic buildings in particular make up for 38% of that total. At a national level the Government has responded with various schemes to stimulate the retrofit and deployment of renewables across housing stock and encouraged local authorities to bid for Green Homes Grant, Social Housing Decarbonisation Funds and Home Upgrades Grant. Barking & Dagenham successfully leveraged in £7.8m between 2020/21 delivering significant EWI and solar panel upgrades to almost 600 homes.
- 1.3 The shift to greening homes has also been underpinned by the following national announcements:
 - The Clean Growth Strategy set targets to upgrade as many houses as possible to EPC band C by 2035(2030 for all fuel-poor households).
 - The Future Homes Standard provides an update to Part L of the building regulations and will include the future ban on gas boilers by 2025
 - Gas boilers will be banned in new homes from 2025
 - Domestic Minimum Energy Efficiency Standards Regulations 2018 apply to all new and existing tenancies preventing a landlord from letting, or

continuing to let a property that has an Energy Performance Certificate rating below E

- 1.4 It is therefore vitally important that Barking & Dagenham continues to exploit any opportunity to leverage in further funding for the retrofit and decarbonisation of homes.
- 1.5 Against the backdrop of climate change targets, the upgrading of insulation and fabric in homes has become ever more critical since energy prices for those on standard variable tariffs and prepay meters increased in April by 54% to £1,971 a year. The global scramble for energy supplies following the easing of Covid restrictions and the impact of the invasion of Ukraine has led to oil and gas prices being four times higher than they were four years ago.
- 1.6 The problem is set to become more acute in Barking & Dagenham over 2022/23 as the national energy cap (which limits the maximum that suppliers can charge households), is expected to increase by a further 42% in October, spiralling to £2,800 per annum. Due to the high proportion of low-income households in Barking & Dagenham last year the borough has topped the league table for highest fuel poverty in England, standing at 22.5% of homes (16,738). The borough also has an estimated 19,000 homes on expensive prepayment meters.
- 1.7 The Council must ensure that low-income households get access to free energy efficiency advice and measures to reduce their energy consumption. The Draft Electricity and Gas (Energy Company Obligation) Order 2022 (commonly known as ECO4), seeks to provide some relief and is the fourth and final milestone in the development of the suppliers' energy efficiency obligations. Established in April 2013 the obligation requires energy suppliers with a customer base of 150,000 or more to fund the installation of energy efficiency measures. The scheme has been amended to take account of 'whole-house retrofit' of heating, insulation and where viable 'innovation' measures which apply to qualifying homeowners, social tenants and private renters.
- 1.8 The suppliers are set overall targets to meet with each set of measures and installs batched into quotas. Failure to meet them by 2026 will trigger a fine from the Office of Gas and Energy Markets (Ofgem), which oversees the administration of the programme.
- 1.9 In 2019, Barking and Dagenham sought a delivery partner to maximise the roll-out of free installs under ECO3 and appointed Eon Energy Services Ltd to manage the programme. This scheme was badged up under a local brand called Cosy Homes, which since 2020 has delivered the following benefits for Barking & Dagenham:
 - 1,160 cavity wall and loft insulation measures installed across 1,012 homes
 - 533 Properties that were an EPC E,F and G have been move to a D or above
 - £4.7m in estimated lifetime bill savings (LBS) for those households
 - £1.3m in ECO3 funding brought into Borough
 - 13,967 tonnes of carbon saved
 - £577,585 economic benefit brought to Barking & Dagenham through employment of local surveyors, tradesmen, kickstart placements,

accommodation costs, fuel purchases and subsistence/food allowances spent in Barking

- 1.10 Barking and Dagenham is best placed to exploit ECO4 and had the highest uptake of ECO3 measures in London, winning the London Region's Best Largest Retrofit and Insulation Scheme by the Energy Efficiency Awards in November 2021.

2. Proposal and Issues

- 2.1 To support the transition of Barking and Dagenham to a low carbon, clean growth borough, the Council is keen to maximise all opportunities to enable it to decarbonise domestic properties, improve the thermal performance of stock and provide affordable warmth. The ECO4 regulations are expected to be laid before Parliament in July and there is an interim period for the remainder of ECO3 which will now formally close on the 30th June 2022. ECO4 will not begin until at least 1st July 2022.
- 2.2 The ECO4 scheme takes a whole-house approach but adopts the principle of a fabric-first, focusing on improving the building itself before installing new heating systems. Any home with an efficiency rating of 'D' or below will have to install loft, roof, and external/cavity wall insulation before improving any existing heating systems.
- 2.3 It incentivises repairing efficient heating systems where possible and any broken heating systems that cannot be repaired can be replaced through the Broken Heating Cap but the adoption of heat pumps and solar PV is widely encouraged. Coal-fuelled heating systems, oil- and LPG-fuelled heating systems will need to be replaced with greener alternatives, although there are very few in Barking and Dagenham.
- 2.4 Targeted at the least energy-efficient homes in the country, it will focus on low-income and vulnerable households and most applicants would have to be in receipt of any of the following benefits:
- Income-based Jobseekers Allowance (JSA)
 - Income-related Employment & Support Allowance (ESA)
 - Income Support (IS)
 - Pension Credit Guarantee
 - Credit Working Tax Credit (WTC)
 - Child Tax Credits (CTC)
 - Universal Credit (UC)
 - Housing Benefit
 - Pension Credit Savings Credit
- 2.5 While the focus will be primarily on owner-occupied homes, this new phase of the grant will also support inefficient social housing and private rented properties too.
- 2.6 To capitalise on the opportunities of ECO4 from the start, the Council is recommended to undertake an expression of interest exercise and ask ECO4-mandated energy suppliers to submit high-level proposals which could be developed into the next phase of the borough-wide branded Cosy Homes scheme. The Council employed the same approach in 2019 and will seek to ensure that the supplier manages the programme, reports back to Ofgem, leads on customer

engagement, appoint installation contractors and be responsible for the delivery of the works (and associated liabilities). In accordance with our corporate expectations, suppliers will be asked to provide enhanced levels of social value, including solid commitments to train and employ local residents into the retrofit market; where possible using local supply chains and support the Council's wider commitments to develop the green economy. The Council would retain oversight of the programme, monitor delivery and support soft marketing.

2.7 The EOIs will be assessed by a panel consisting of Inclusive Growth, My Place and Enforcement consisting of officers from My Place, Inclusive Growth and Enforcement Services and will judge the submissions and aggregate scoring, nominate a preferred single partner to undertake further data analysis over the autumn to target qualifying households and deliver installs across the next four years as part of a borough-wide offer. The proposed evaluation matrix is presented below with commentary indicating some of the themes to be teased out:

Methodology	50%	Statement of intent on demonstrating how to deliver a program of retrofitting across all tenures; draft schedule of measures; collaborating with partners, installers, and customer engagement strategy; processes for managing agent/installer/local supplier appointment; reporting to Ofgem; estimated carbon savings, RdSAP predictions and EPC assumptions; commitments to net zero carbon and recruitment of local residents into local labour force
Pricing	10%	This is largely out of hands but is worth understanding the funding rate, which reflects what the supplier is prepared to pay to agents and installers for every carbon tonne that is saved
Experience	25%	History of delivering ECO and predecessor schemes and management of partner relationships
Project management	15%	Illustration of clear lines of project management in the delivery of contract, including appointed lead; implementation planning with key milestones and assumptions; risks evaluation; data analysis and reporting; client liaison

2.8 The Council's general approach to ECO in the past involved treating the programme as a simple partnership, in which the Council was not directly contracting, tendering or paying for a service. The Council will act as a sign-post for residents to access free measures through our marketed brand of Cosy Homes. Apart from where social properties are included, the provider will engage with owner-occupiers and private renters direct any agreements entered into will be between those parties rather than the Council. Therefore, there was no need to tender for an ECO-funded project. As a general rule of industry, there is an understanding among energy suppliers themselves where they do not contest or challenge local authorities or each other with regard to delivering ECO obligations. This paper recommends retaining that approach.

- 2.9 While at this stage the total value of works cannot be ascertained, ECO3 works in the borough, across all tenures, over the last two years came to the total of £1.3m. It is not anticipated that ECO4 will exceed the £4m threshold.

3. Options Appraisal

- 3.1 Failing to engage with ECO4 is not an option and it form a key plank in the delivery of the Council's ambitions for greener, clean growth borough as well as contributing to the 2050 carbon neutral targets.
- 3.2 The Council could allow energy suppliers and installers to deliver measures in their own right with no assistance and engagement from the local authority. Energy suppliers are the fund-holders and either use in-house installers to carry out the works or distribute funding to managing agents, which bid to deliver a portion of the supplier's quotas under a delivery contract. However, we would lose sight as to what is being delivered on the ground. We would also lose influence as to whether local supply chains are appointed to carry-out works and not access any free of match-funding for social stock.
- 3.3 Equally, working with industry partners and developing creative bids is the only credible way in which to unlock substantial investment and detailed technical and procurement advice for housing and affordable warmth solutions of the future.

4. Consultation

- 4.1 As part of the drive towards transitioning Barking and Dagenham to a low carbon, clean growth borough, there has been significant discussion regarding the opportunities of ECO3 and ECO4 across the Council, with regular import from colleagues in My Place, Be First, Enforcement, Procurement, Participation and Policy and Legal Services. A number of those services will continue to be involved in the data cleansing, tender processes and planning next steps which have culminated in this paper. Programme updates will continue to be provided to the respective Cabinet members with responsibilities for housing and climate change.

5. Financial Implications

Implications completed by: Sandra Pillinger, Group Accountant

- 5.1 This is a proposal for the Council to undertake an Expression of Interest exercise for energy suppliers to become the Council's delivery partner for the next phase of the Cosy Homes scheme. The selected partner will be responsible for delivering the scheme with LBBD monitoring that delivery. There are no financial implications for the Council as the cost will be met by the selected supplier.

6. Legal Implications

Implications completed by: Kayleigh Eaton, Senior Contracts and Procurement Solicitor, Law & Governance

- 6.1 The Council is looking to partner with an energy provider to deliver ECO4 energy efficiency measures in the borough. This report states that the Council will not be

making any payment or receiving any payment for the works and that its role is limited to promoting the energy efficient works to residents within the borough.

- 6.2 Should the Council be engaging the provider for any of its own stock then the Council will enter into a separate works contract with the supplier. The potential value of works to the Council's stock has been advised to be below the works threshold set out in the Public Contracts Regulations 2015. This report is seeking a waiver in respect of these works which can be approved if the value of the works remains below this threshold and one of the grounds for a waiver within rule 6.6 of the Council Contract Rules is met.
- 6.3 In terms of works to private sector properties, this report states that the Council's role will be limited to marketing the opportunity in the borough and that a direct contractual relationship will be formed between the energy provider and residents who choose to take advantage of the offer. The Council will retain oversight of the programme, monitor delivery and support soft marketing. Therefore, it appears that the Council will not be receiving or purchasing services, supplies or works from the energy company meaning that the arrangement falls outside of the Public Contracts Regulations 2015.
- 6.4 The client department has advised that marketing activities from the Council will be minimal and therefore would fall well below the minimum financial assistance threshold set out under the Subsidy Control regime (previously State Aid). The Council should continue to monitor the costs associated with the partnership to ensure that the minimum financial assistance threshold is not met.
- 6.5 The Law & Governance team will continue to be on hand to assist and advise as required.

7. Procurement Implications

Implications completed by: Euan Beales, Head of Procurement & Accounts Payable

- 7.1 The proposed procurement route is an expression of interest and will be issued to ascertain which companies can provide the requirements under the ECO4 funding criteria. The provider will provide the services though the ECO4 funding and would be responsible for all processes and procurements in delivering the agreed requirements. It is understood that for a small service element (solid walls and potentially first-time central heating where relevant) the Council will be required to contribute to a proportion of spend. However, as the provider will be managing the funding and the supply chain there are no procurement requirements for the Council
- 7.2 Under this procurement is not envisaged that the threshold will not be reached and will not be required to be tendered under the full process as detailed in EU legislation.

8. Other Implications

- 8.1 **Risk Management Issues** – With regard to ECO4, the preferred partner will, in all circumstances, assume the responsibilities associated with the supply and installation; performance risk of equipment and materials and the risk of any future Government terminating the scheme. In relation to social stock, Eon will need to

indemnify the Council against any costs incurred due to damage to property caused by faulty equipment or defective installation. Partners working on private sector dwellings will be solely responsible to the property owners for works commissioned through private agreement. Installers will be responsible for providing the appropriate CIGA and SWIGA guarantees for the installation of cavity and solid wall insulation.

8.2 **Contractual Issues** – Contractual exchanges will take place in the early Autumn and are yet to be decided but all agreements and contracts of works must cover indemnities, warranties and liabilities relating to the installation of works. The project implementation group, comprised of Be First, My Place and Inclusive Growth will be responsible for monitoring the contractual arrangements and delivery of the programme, which will also report back into the Assets & Capital Board.

8.3 **Corporate Policy, Customer and Equality Impact** - Rising fuel bills affect most people and those identified as qualifying for ECO4 works will be low-income households who tend to live in properties with poor thermal comfort. In general, any works that enhance the energy efficiency of dwellings should cut fuel bills, reduce fuel poverty and improve the health outcomes of those suffering from cold-related illnesses.

The proposal is positive in its impact upon the protected characteristics outlined in the Equality Act 2010.

8.4 **Health Issues** – The proposals will have a positive impact upon health issues locally, potentially reducing the number of residents in fuel poverty, alleviating the impact of cold related illnesses and reducing the toll of excess winter deaths.

8.5 **Crime and Disorder Issues** - There are no general crime and disorder issues.

8.6 **Property / Asset Issues** – All aspects of the ECO4 programme are expected to aid and assist the delivery of the thermal comfort element of the Council's HRA Capital Programme and support the driving up of stock conditions through the Council's Private Rented Sector Licensing Scheme and collectively, all measures should contribute to the Government's objective of raising the EPC rating of all properties to level C by 2035.

All works must be completed by PAS2035 industry accredited installers and Ofgem require that at least 5% of all works in each phase are independently audited for quality assurance purposes.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None