Local Authority approaches to promote and deliver the Green Deal

June 2012
Local Authority approaches to promote and deliver the Green Deal

CONTENTS

1. Introduction .......................................................................................................................... 3
   1.1. The Green Deal Initiative ............................................................................................. 3
   1.2. Scottish Government Objectives ................................................................................. 4
   1.3. Scope of Review .......................................................................................................... 4
   1.4. Context ........................................................................................................................ 5

2. Local Authorities and the Green Deal ................................................................................ 6
   2.1. Local Authority Roles .................................................................................................. 6
   2.2. Assessing a Local Authority’s Approach to the Green Deal ........................................ 6
       2.2.1. Local Authority Policy Objectives ....................................................................... 7
       2.2.2. The “Base Line” and Local Authority Influence .................................................. 8
       2.2.3. Option Definition and Appraisal ......................................................................... 10
   2.3. Summary ................................................................................................................... 10

3. Local Authority Approaches to Promoting and Delivering the Green Deal ..................... 12
   3.1. Introduction ............................................................................................................... 12
   3.2. Green Deal Roles and Terminology ........................................................................... 12
   3.3. Comparing Different Approaches ............................................................................. 12
   3.4. Do Minimum .............................................................................................................. 14
   3.5. Framework of Green Deal Providers ......................................................................... 16
   3.6. Community Interest Company to promote and support Green Deal Delivery .......... 20
   3.7. Green Deal Partnership Model ................................................................................. 26
   3.8. Local Authority becomes a Green Deal Provider ...................................................... 31
   3.9. Summary ................................................................................................................... 33

4. Financing the Green Deal ................................................................................................. 35
   4.1. Introduction ............................................................................................................... 35
   4.2. The Green Deal Finance Company (“TGDFC”) .......................................................... 36
   4.3. Corporate Funding .................................................................................................... 37
   4.4. Other Private Sector Sources of Finance .................................................................. 37
   4.5. Local Authority Funding including Public Works Loan Board (“PWLB”) ................. 37
   4.6. Summary ................................................................................................................... 39

5. Summary .......................................................................................................................... 40
1. Introduction

This section of the report provides background on the Green Deal and the scope of this review into Local Authority approaches to promote and deliver the Green Deal.

1.1. The Green Deal Initiative

The Green Deal is a UK Government sponsored framework introduced in the Energy Act 2011 to allow private firms to offer UK consumers (both domestic and non-domestic) specified energy efficient improvements to their buildings including, but not limited to, solid wall insulation, loft insulation, cavity walls and new boilers. Consumers repay the cost of such improvements through the resulting savings on their energy bills.

The core requirement of the Green Deal is that savings made must exceed the cost of the repayment of the energy efficiency works – known as the “Golden Rule.” Providing that the Golden Rule is met consumer repayments will be collected by the utility companies as part of the consumer’s electricity bills and will rank pari passu with the electricity bills i.e. if a consumer normally pays £150 a month comprising £100 for electricity and £50 for Green Deal repayments and in one month underpays by £50 the resulting £100 payment will be allocated as £67 for the electricity bill and £33 for the Green Deal repayment.

For domestic properties which do not meet the Golden Rule, the energy companies may offer some form of subsidy in order for them to meet the Energy Company Obligation. (The Energy Company Obligation, or ECO, places a requirement on energy retailers to promote measures that either achieve carbon savings in domestic properties or reduce heating costs in low income and vulnerable households. It is expected that energy retailers will achieve this by offering subsidies to households for qualifying measures. How energy suppliers meet their target is their choice, therefore it will be down to each individual energy supplier as to whether they subsidise an individual household). ECO comprises three targets, a carbon target, a carbon saving communities target and an affordable warmth target. Suppliers will need to meet all three targets. The carbon saving communities and affordable warmth targets can only be met by achieving savings in qualifying households.

As there is not a requirement on energy suppliers to spend any money to achieve their ECO targets, UK Government (Department of Energy and Climate Change) have assumed that suppliers will achieve their targets as cost effectively as possible. In the impact assessment for Green Deal and ECO there is an assumption that much of the ECO target will be met in household that are also taking out Green Deal finance. Where energy suppliers or householders identify other sources of funding (rather than Green Deal finance) this approach may also be attractive to suppliers.
The initial focus of the Green Deal initiative has been the domestic estate (both social housing and private housing) with DECC forecasting investment of £14bln into the UK’s domestic estate in the period to 2020. Some analysts forecast an investment of >£20bln. The Scottish Government’s objective in this area is to attract 9% of this reflecting its population size i.e. £1.26bln - £1.8bln. The estimated spend by energy retailers to achieve their ECO target is £1.3bln pa – there is no requirement for this to be spent within specific geographical areas and the utility companies are expected to deploy this where they can maximise the carbon savings for the minimum ECO investment. The Scottish Government’s objective is to attract at least 9% of this funding i.e. approximately, £120m per annum.

English Local Authorities are taking a lead role in promoting and delivering the Green Deal with a number of regions such as the North East of England and the Birmingham area currently procuring Green Deal partners. Other Authorities are undertaking feasibility studies and developing business cases to inform their approaches to the Green Deal.

1.2. Scottish Government Objectives
The Scottish Government’s objectives are to maximise the contribution of Green Deal and ECO to support their policy objectives for energy efficiency, carbon reduction and fuel poverty. They also wish to establish Scotland as the most attractive place for energy companies to discharge their obligations through facilitating partnerships with Local Authorities and Energy Companies as part of the initiatives to target fuel poverty.

In early June, the Scottish Government announced a commitment to a National Retrofit Programme to tackle fuel poverty, reduce carbon emissions and upgrade Scotland’s housing stock. Further details can be found on: Scottish Government Press Release

Local Authorities will take the lead role in tackling fuel poor areas and in considering Green Deal delivery models they should also take this programme into account.

1.3. Scope of Review
In 2012, the Scottish Government asked SFT to review approaches available to Local Authorities to promote and deliver the Green Deal within Scotland. This included a review of commercial models being developed by other Authorities and how these were being financed. It provides an independent overview of the alternative approaches to enable Local Authorities to assess which model best meets their needs.

This report is structured as follows:

- Local Authorities and the Green Deal:
  - Local Authority Roles
  - Approach to assessing the most appropriate Local Authority Role
- Overview of Local Authority approaches to promoting and delivering the Green Deal:
  - Do Minimum
- Establish a framework of Green Deal Providers
- Establish a Community Interest Company (“CIC”) or social enterprise company to promote and support the Green Deal delivery with both suppliers and consumers
- Appoint a Green Deal Delivery Partner
- Become a Green Deal Provider

- Financing the Green Deal:
  - The Green Deal Finance Company
  - Corporate Funding
  - Public Works Loan Board or other Local Authority resource

- Summary

1.4. Context
The Green Deal is due to be launched in October 2012 following the enactment of secondary legislation in summer 2012. Therefore details included within this report may be subject to change as the policy moves towards the implementation stage.
2. Local Authorities and the Green Deal

This section outlines why a Local Authority may wish to promote delivery of the Green Deal and the variables it will need to consider in assessing the impact of alternative approaches.

2.1. Local Authority Roles

The Department of Energy & Climate Change (“DECC”) identified three potential roles for Local Authorities in supporting the roll out of the Green Deal as follows:

- Promoter – the Local Authority promotes the Green Deal to their local residents.
- Partner – the Local Authority works in partnership with private sector Green Deal Providers to facilitate delivery of the Green Deal to their local area.
- Provider – the Local Authority becomes a Green Deal Provider co-ordinating finance and delivery to local residents.

The role which any Local Authority decides to adopt will be dependent upon their specific objectives not only for the Green Deal but for their wider energy efficiency, low carbon and fuel poverty agendas. Within these areas the Green Deal may prove to be a valuable tool.

This report details a route map which can be adopted by Local Authorities to assess whether the Green Deal initiative can assist in delivering their policy objectives and provides an overview of a range of approaches for Local Authority intervention to promote and deliver the Green Deal. These approaches have been developed further from DECC’s initial analysis and reflect experience elsewhere within the UK.

2.2. Assessing a Local Authority’s Approach to the Green Deal

Local Authorities will need to carefully consider the most appropriate approach for their specific circumstances - the route map overleaf details one methodology Local Authorities can adopt to assess their objectives and the variables which may influence Green Deal uptake. An understanding of these areas will be important in evaluating the benefits of adopting a proactive approach to implementing and promoting the Green Deal.
Diagram 2.1: Framework to assess alternative approaches to promoting and delivering the Green Deal

2.2.1. **Local Authority Policy Objectives**

The Green Deal is a potential delivery and financing tool which can assist Local Authorities to address policy objectives relating to:

- **Low carbon and energy efficiency** within both the domestic and non-domestic estates within their areas. It can be applied to social housing, the private rented market and the wider owner-occupied model. In the private rented sector, landlords will be responsible for Green Deal payments during any void periods and tenants will be responsible for the payments during the rental period. It may be a valuable tool to address municipal buildings including the schools estate, libraries and community facilities.
• **Fuel Poverty** across the different tenures. The provision of the golden rule and the potential to supplement the cost of the energy efficiency measures with ECO (Energy Company Obligation) funding may make this an appropriate mechanism. ECO is subject to eligibility criteria in terms of the applicable works and for Affordable Warmth and Carbon Saving Community target groups.

• **Economic Development** through supporting and sustaining local jobs within the energy efficiency market.

The Green Deal can contribute as one tool in addressing the above policy areas through:

• Providing an accredited system for energy efficiency works which address the aspirations for a lower carbon economy.

• Through leveraging in additional ECO funding, where applicable, to part-finance the home improvements required to meet policy targets.

An Authority’s approach to the Green Deal should be considered within an Authority’s wider sustainability policy to ensure that all activities are complimentary. This includes consideration of how it will work with any Energy Services Companies (“ESCOs”) or Arms Length Management Organisations (“ALMOs”) that a Local Authority has or is considering establishing.

### 2.2.2. The “Base Line” and Local Authority Influence

In order to evaluate the opportunities and benefits for Local Authority intervention in support of the Green Deal, there must be a clear understanding of:

• The “base line”\(^1\) i.e. how energy efficient are the buildings within the Local Authority area and how does energy efficiency fluctuate by variables such as building category i.e. non-domestic, domestic, ownership, age, area etc...; and

• What variables can the Local Authority realistically influence to address energy inefficient buildings? How can these variables be influenced? And, what are the benefits such actions may bring in terms of the Local Authority’s policy objectives?

Understanding the existing building infrastructure will enable a Local Authority to identify the investment needed both in terms of the type of works required for example, solid wall cladding or insulation and the quantum of the investment needed.

The Local Authority must have a clear grasp of which variables they can realistically influence to promote the uptake of the Green Deal. This is especially important as there will

---

\(^1\) The “base line” is effectively the “Do Nothing” option as defined by HM Treasury’s The Green Book which provides guidance on Option Appraisal.
be a competitive Green Deal market and Local Authorities will clearly need to understand how their actions will impact upon the operation of this wider market.

The diagram below indicates the four Green Deal related variables which a Local Authority can influence to increase the uptake of the Green Deal within their areas:

Diagram 2.2: Variables Local Authorities can influence to promote the Green Deal

What can a Local Authority realistically influence?

Local Authorities can influence the following variables:

- **Third party demand** – evidence indicates that demand for home insulation and energy efficiency measures can increase significantly when there is active Local Authority involvement to promote the scheme. A recent report for the Scottish Government\(^2\) indicated that a Management Agent reported that Local Authority backed programmes result in a 3.5-9 fold increase in uptake compared to non-Local Authority backed programmes. It also indicated a three-fold difference in the level of uptake between different Local Authorities for loft insulation and cavity wall insulation.

---

• **Local Authority demand** – Local Authorities have the ability to use the Green Deal to undertake energy efficiency works on their social housing and their municipal estate including office buildings, libraries and schools. Although, green deal finance is likely to be more expensive than PWLB\(^3\) financing, this may be an attractive option when the Local Authority is unsure whether they wish to retain buildings within their ownership for long periods. Under the Green Deal the loan attaches to the electricity meter of the property and transfers to new owners on sale of the property.

• **Supply chain** – a Local Authority is well placed to support the supply chain in providing information on the Green Deal accreditation process and local training opportunities for this. This can play an important role in supporting local jobs and SMEs. The supply chain may also play an important role in promoting the Green Deal as an avenue for spreading the cost of energy efficiency works without relying on personal credit assessments.

• **Financing** – a number of Local Authorities are adopting a proactive approach to financing the Green Deal. This area is covered in more detail within Section 4.

**2.2.3. Option Definition and Appraisal**

Once a Local Authority has identified the need and the areas it can influence, it can define a number of options to promote and deliver the Green Deal. These options should be subject to an option appraisal in accordance with HM Treasury’s Green Book which assesses the risks, costs and benefits of various options.

Further details on a range of approaches to promoting and delivering the Green Deal are reviewed within Section 3.

**2.3. Summary**

In summary, the suggested route map involves:

1. Clarifying and confirming the policy objectives;

2. Understanding the “Base Line” i.e. what are the problem areas, what aspects need to be addressed to meet policy objectives;

3. Understanding what areas a Local Authority can influence. For example, how effectively can Local Authorities promote demand for the Green Deal within the private rented sector, owner-occupied sectors and other third party users? Where are the barriers to influencing these groups and how can these be overcome to maximise the opportunities? How will their approaches influence a competitive green deal market?

---

\(^3\) Public Works Loan Board
4. Undertaking an option appraisal to compare the costs, risks and benefits of each approach in relation to a Local Authority’s specific policy objectives.

In this way, the Authority has a clear understanding of the landscape prior to assessing which approach is likely to best meet their needs.
3. Local Authority Approaches to Promoting and Delivering the Green Deal

This section reviews the different approaches available to Local Authorities to promote and deliver the Green Deal.

3.1. Introduction
Once Local Authorities have a clear understanding of how the Green Deal fits into their policy objectives and the current position, they can assess the different approaches to promoting and delivering the Green Deal within their area.

The approaches outlined in this document are generic although draw on the wider UK experience. This experience, (and therefore Local Authorities’ approaches to the Green Deal), is continuing to evolve and develop as the Green Deal Policy develops. Careful consideration will need to be given when assessing how changes in the Green Deal policy during the implementation phases will influence the attractiveness of the various approaches.

For clarity, we have separately considered the Local Authority approaches for:

- Promoting and delivering the Green Deal with this section of the report; and
- Financing the Green Deal within Section 4 of this report.

3.2. Green Deal Roles and Terminology
The Green Deal policy proposes that the Green Deal is delivered by Green Deal Providers who enter into a contractual relationship with a householder, are responsible for the provision of finance and arranging the energy efficiency works to be completed by a certified installer. The energy efficiency works are defined in a Green Deal Plan which must be based on recommendations from a certified assessor. Further details on these roles are provided at the following hyperlink: [www.decc.gov.uk](http://www.decc.gov.uk)

3.3. Comparing Different Approaches
To assist Local Authorities in comparing the different approaches, we have outlined the following details for each of them:

- Our understanding of the original rationale for developing and adopting this approach;
- The split of the roles and responsibilities between Local Authorities and the private sector;
• A summary of the contractual structure for delivering the Green Deal and the Local Authorities role in this;

• A commentary on the likely costs and risks a Local Authority may be exposed to and the anticipated benefits; and

• The procurement implications and timescales for Local Authorities.

The diagram below summarises the five broad approaches which a Local Authority may adopt:

**Diagram 3.1: Local Authority approaches to promoting and delivering the Green Deal**

These are explained on the following pages.
3.4. Do Minimum

**Approach**
This involves the Local Authority actively promoting the Green Deal through for example, having a web portal which can explain and promote the Green Deal to local residents and/or; having a separate portal which can explain to local companies where to find out information on the Green Deal accreditation process.

**Rationale for adopting this approach**
This approach is attractive to Authorities who do not want to adopt a significant role in rolling out the Green Deal but wish to be supportive of the initiative.

**Role and Responsibilities**

<table>
<thead>
<tr>
<th>Role &amp; Responsibility</th>
<th>Lead Deliverer</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>Not Applicable</td>
<td>No organisation is established under this approach to promote the Green Deal.</td>
</tr>
<tr>
<td>Governance</td>
<td>Not Applicable</td>
<td>As above</td>
</tr>
<tr>
<td>Promotion of Green Deal to Consumers</td>
<td>Council</td>
<td>Council promotion supplements private sector marketing and national government marketing &amp; incentives.</td>
</tr>
<tr>
<td>Promotion of Green Deal to Suppliers</td>
<td>Council</td>
<td>Council promotion supplements national government marketing &amp; incentives.</td>
</tr>
<tr>
<td>Actively managing demand</td>
<td>Market led</td>
<td>This is undertaken by the private sector within a competitive market.</td>
</tr>
<tr>
<td>Green Deal Provider</td>
<td>Market led</td>
<td>As above</td>
</tr>
<tr>
<td>Green Deal Assessment</td>
<td>Market led</td>
<td>As above</td>
</tr>
<tr>
<td>Green Deal Installation</td>
<td>Market led</td>
<td>As above</td>
</tr>
<tr>
<td>Role &amp; Responsibility</td>
<td>Lead Deliverer</td>
<td>Comments</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------</td>
<td>----------</td>
</tr>
<tr>
<td>Financing</td>
<td>Market led</td>
<td>As above</td>
</tr>
</tbody>
</table>

**Contractual Structure**

The Local Authority has no involvement in the Green Deal contractual relationships which are shown below:

**Diagram 3.2: Do Minimum: Contractual Framework between the householder and Green Deal Provider**

The Local Authority may however, enter into contracts for the promotion of the Green Deal for example, the procurement of web-portals and services to promote the Green Deal within their local area.

*Commentary on the costs, risks and benefits associated with this approach for the Local Authority*

**Costs**

The costs to the Council are minimal and are related to establishing web portals and general marketing expenses.
Risks
There are minimal financial risks to a Local Authority.

The major risk to the Local Authority is the opportunity cost of lost investment within their Local Authority area in comparison to Authorities who adopt a more pro-active approach. This is especially true in terms of maximising the ECO funding which is invested in a Local Authority area and the ability to leverage in additional investment from Scottish Government initiatives relating to future energy efficiency funding.

This approach will have the least impact upon an Authority’s ability to influence fuel poverty, housing quality, carbon reduction and will also impact upon local employment opportunities.

Benefits
The Local Authority is supporting the Green Deal through the provision of information. Therefore, uptake of the Green Deal within their Council area may be slightly higher than a “Do Nothing” approach but the impact may be difficult to quantify.

Procurement Implications
The Local Authority may need to procure the promotion of the Green Deal if this isn’t undertaken by the Council itself – for example, a website portal.

3.5. Framework of Green Deal Providers

Approach
Under this approach, the Local Authority, or a group of Local Authorities, adopts a twin track approach by:

- taking an active role in promoting demand and identifying packages of work which will be suitable for delivery through the Green Deal mechanism; and

- establishing a framework of certified Green Deal Providers including the Green Deal assessors and Green Deal installers.

The Local Authority needs to carefully consider how they structure and procure the group of Green Deal Providers. These can include:

- a formal OJEU process to select a framework of Green Deal Providers from which the Council can call off services for its own needs or acting as agent for others under some circumstances. Householders would also be able to use these Green Deal Providers to obtain quotes.

- No formal OJEU process is required if the Council does not want to use the framework for its own purposes.
Where the first approach is used, the Local Authority identifies a package of work which may be priced through a mini-competition by the Green Deal Providers. In order to be attractive to the market, there will need to be a minimum level of Green Deal activity. This approach could be structured so the frameworks cover wider local government funded programmes and/or a number of public bodies provided this is specified in the OJEU notice.

**Rationale for adopting this approach**
The use of frameworks is popular across the public sector. This approach allows Authorities to actively support Green Deal delivery without involving the commitment of a Delivery Partner or the need to establish a separate organisation to deliver this. The frameworks can be used by a number of public sector participants (providing they are named on the OJEU) to retain an element of price competition for individual packages of work.

**Role and Responsibilities**

<table>
<thead>
<tr>
<th>Role &amp; Responsibility</th>
<th>Lead Deliverer</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>No separate organisation established</td>
<td>Council will manage the contractual relationships with the Framework Providers organising mini-competitions and monitoring KPIs.</td>
</tr>
<tr>
<td>Governance</td>
<td>No separate organisation established</td>
<td>As above</td>
</tr>
<tr>
<td>Promotion of Green Deal to Consumers</td>
<td>Not applicable under the framework structure</td>
<td>The Framework Providers would not provide this service unless specified within the tender and contractual documentation.</td>
</tr>
<tr>
<td>Promotion of Green Deal to Suppliers</td>
<td>Not applicable under the framework structure</td>
<td>Council promotion to suppliers could continue to supplement national government marketing &amp; incentives but will not be a role for framework partners unless they are required to support initiatives such as local apprenticeships.</td>
</tr>
<tr>
<td>Actively managing demand</td>
<td>Council</td>
<td>To maximise the use of the frameworks the Local Authority will manage the contractual relationships with the Framework Providers.</td>
</tr>
</tbody>
</table>
Councils and RSLs would need to actively package work to be undertaken under the Green Deal.

<table>
<thead>
<tr>
<th>Role &amp; Responsibility</th>
<th>Lead Deliverer</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Deal Provider</td>
<td>Framework Company</td>
<td></td>
</tr>
<tr>
<td>Green Deal Assessment</td>
<td>Framework Company</td>
<td></td>
</tr>
<tr>
<td>Green Deal Installation</td>
<td>Framework Company</td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td>Framework Company</td>
<td>The Framework Provider will access finance. Sources of finance are discussed within Section 4 of this report.</td>
</tr>
</tbody>
</table>

**Contractual Structure**

The Local Authority has a framework contract with each of the framework suppliers. This will cover their responsibilities under the Framework and performance criteria. The actual Green Deals will need to utilise the Green Deal Contract, as specified by DECC, to ensure they classify as a Green Deal and can raise Green Deal finance.

The contractual structure is summarised overleaf:
Diagram 3.3: Framework of Green Deal Providers

Framework of Green Deal Providers

Local Authority procures a framework and runs mini-competitions to select a GDP

Green Deal Provider
Green Deal Provider
Green Deal Provider
Green Deal Provider

Green Deal Measures

Householder

Local Authority Packages Demand

Green Deal Loan Repayments

Utility Companies

Loan Repayments Collected with electricity bill

Commentary on the costs, risks and benefits associated with this approach for the Local Authority

Costs
The costs of establishing a framework of providers will vary depending upon the number of Authorities who participate in the framework and the complexity of the approach adopted. The costs will need to cover a team who can specify the works which are likely to be required; develop any contractual documentation (in addition to the Green Deal contracts) including the evaluation approach for short-listing Green Deal Providers; and, to develop any quality and KPI monitoring systems as well as managing the procurement process.

Risks
The risks associated with the framework may include:

- **mis-selling risks** – the Local Authority may be exposed to this risk if they are managing demand. The interface between the Local Authority and the Green Deal providers will need to be carefully understood in this respect.

- **reputational risk** if the energy efficient works were of poor quality. One approach to manage this risk is for a Local Authority to either (i) become a Green Deal assessor so they are involved in assessing the required works and costs; or, (ii) to separate the roles of green deal assessor and green deal installer under the framework. This
may address consumer concerns over mis-selling and the reasonable costing of work.

Benefits
The framework has a number of benefits as follows:

- It retains an element of price competition for the individual work packages.
- The frameworks can include quality KPIs which are unrelated to areas covered by the Green Deal. Feedback such as the quality of the jobs undertaken and the use of local apprenticeships can be incorporated into the framework and influence the allocation of future work.
- The frameworks can cover a number of public sector organisations so RSLs, other Local Authorities and community bodies can be covered. The more bodies that are included within the procurement, the more attractive the framework will be to Green Deal providers.

Procurement Implications
The framework could be established under the restricted procedure which is likely to take 6-9 months from the advert being placed in the Official Journal of the European Union (“OJEU”).

3.6. Community Interest Company to promote and support Green Deal Delivery

Approach
The United Sustainable Energy Authority\(^4\) has developed a Local Authority model which supports the establishment of local networks of Green Deal Installers. They propose that a consortium of Local Authorities form a dedicated social enterprise in the form of a Community Interest Company (“CIC”) to provide a regional Green Deal offer.

The CIC is formed and owned by the Local Authorities and is established to promote the Green Deal to local suppliers and also to market it to local residents.

This model is being piloted by Milton Keynes Council\(^5\) with the option for other Council’s to become involved.

Rationale for developing this approach
This approach was originally developed for Local Authorities who wanted to take an active role in the implementation of the Green Deal policy but did not want to appoint a specific Green Deal Delivery Partner. It provides the flexibility to stimulate demand and support

\(^4\) [http://www.usea.org.uk/section/?sectionid=37](http://www.usea.org.uk/section/?sectionid=37)

local businesses. It also facilitates Local Authorities providing finance to the Green Deal but assumes that this will be through The Green Deal Finance Company. Further details on Local Authority funding through The Green Deal Finance Company are included within Section 4 of this report.

### Role and Responsibilities

<table>
<thead>
<tr>
<th>Role &amp; Responsibility</th>
<th>Lead Deliverer</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>Members of the CIC</td>
<td>Local Authorities establish the CIC and therefore determine the permissible activities as detailed within the Memorandum and Articles of Association. The CIC Regulator monitors compliance with stated objectives and activities. The Local Authorities are the members in the CIC. The pilot envisages two strands of membership – Shareholder A which requires more Local Authority funding and commitment upfront and provides the right to appoint individuals to the Board of Directors. Shareholder B is an annual membership and provides a right to vote at the Annual General Meeting and Extraordinary General Meetings but requires less upfront commitment.</td>
</tr>
<tr>
<td>Governance</td>
<td>Members</td>
<td>These are the Local Authorities as outlined above.</td>
</tr>
<tr>
<td>Promotion of Green Deal to Consumers</td>
<td>CIC</td>
<td>CIC promotes demand through dissemination of information and a referral.</td>
</tr>
<tr>
<td>Role &amp; Responsibility</td>
<td>Lead Deliverer</td>
<td>Comments</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Promotion of Green Deal to Suppliers</td>
<td>CIC</td>
<td>CIC promotes the Green Deal to the local suppliers and assists with Green Deal accreditation where applicable.</td>
</tr>
<tr>
<td>Actively managing demand</td>
<td>CIC</td>
<td>CIC can target certain key householders or consumers.</td>
</tr>
<tr>
<td>Green Deal Provider</td>
<td>CIC</td>
<td>CIC can either register as a Green Deal Provider or work with locally certified Green Deal Providers.</td>
</tr>
<tr>
<td>Green Deal Assessment</td>
<td>Local Green Deal certified assessors</td>
<td>The pilot assumes that this service will be procured by the CIC however, there is no reason why the CIC could not become a certified Green Deal assessor. This would allow them to price an individual work package before referring to local Green Deal installers/providers.</td>
</tr>
<tr>
<td>Green Deal Installation</td>
<td>Local Green Deal certified installers</td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td>The Green Deal Provider who will also organise the Green Deal assessment and installation</td>
<td>This model was initially established on the assumption that finance would be provided through The Green Deal Finance Company. Details on financing the Green Deal are included within Section 4. This financing role could also</td>
</tr>
</tbody>
</table>
There is some flexibility around the range of activities which the CIC could engage in which could include the organisation of finance and could include registration as a Green Deal Provider in its own right.

**Contractual Structure**

An outline of the structure for the CIC is summarised in the diagram below:

**Diagram 3.4: Green Deal Community Interest Company Structure**

An actual Green Deal would be agreed between a Green Deal Provider and the householder with funding from The Green Deal Finance Company. The CIC can be structured to have an active role in this process i.e. by acting as the Green Deal Provider or may remain external to the individual Green Deal Plan as shown in the diagram overleaf.
Diagram 3.5: Green Deal Community Interest Company showing an individual Green Deal

Green Deal Community Interest Company

Commentary on the costs, risks and benefits associated with this approach for the Local Authority

Costs
The Local Authorities will need to fund the initial set-up costs for the CIC – these will vary reflecting the range of activities the CIC is expected to undertake and whether these need to be procured. The operating costs of the CIC will also need to be funded either by the Local Authorities or through levies on the users of the services – either the suppliers or the customers.

Risks
The risks attaching to the CIC will reflect the roles it will undertake. In deciding on these roles the Local Authority sponsors should consider the following risks:

- **Mis-selling risks** – if the CIC is going to actively promote the Green Deal to local residents and businesses there needs to be clarity on whether these activities could result in mis-selling claims and how these activities would tie into Green Deal assessments and quotes. The CIC will be subject to consumer protection legislation.

- **Reputational risks** – if the CIC role includes a referral system to local suppliers then there needs to be controls in place to ensure the quality of the services provided by the local suppliers and that there is no redress back to the CIC. This needs to be reflected within the contractual arrangements with installers.
- **Green Deal Finance** – the pilot model assumes that finance is available from The Green Deal Finance Company (“TGDFC”) which is reviewed in more detail within Section 4 of this report. TGDFC is in the process of being established and raising finance – if this is delayed then alternative sources of finance may be required.

- **Operational Risks** – these will reflect the agreed role for the CIC and may ultimately, include the loss of any investment in the CIC.

- **Regulatory Risk** – the CIC is regulated by the Community Interest Company Regulator. The role of the Regulator is to ensure that specific CIC provisions such as the community interests test and asset lock (where assets cannot be removed from the company) are complied with. Further details on CICs and the role of the regulator can be found at: http://www.bis.gov.uk/cicregulator/

**Benefits**

The major benefits associated with this structure include:

- it facilitates local delivery and promotes the development of the local supply chain.

- it promotes local demand through targeted marketing activities.

- it allows Local Authorities to take a lead in rolling out the Green Deal within their local areas without the cost and risk exposure of the delivery partner models outlined later within this report.

- Its activities can be structured to support a number of energy efficiency activities and programmes. If surpluses are made it facilitates a return to shareholders (within the pre-agreed limits applying to CICs) or the development of a fund to finance a wider breadth of energy efficiency works.

- It facilitates but does not require collaboration between Local Authorities which may be cost effective.

There may also be timescale benefits if the CIC does not need to be procured.

**Procurement Implications**

The procurement implications associated with the establishment of a CIC are complex and legal advice will be required. If the CIC is classified as a public body it can be established without being procured but it would need to procure the services it delivers. If it is not classified as a public body the Council would need to procure any services that are to be delivered to the CIC.
3.7. **Green Deal Partnership Model**

**Approach**

A Local Authority can procure a delivery partner who will work with them to:

- Identify and actively promote demand;
- Survey properties and provide costs for undertaking the Green Deal works. This will include the need to source finance be it the finance to fund the installation or appropriate ECO subsidy;
- Undertake the work – or as a minimum, manage the installation of the works; and
- Provide the warranties.

This model is similar to the model being taken forward by Birmingham City Council and Newcastle City Council\(^6\). Newcastle’s proposals are based on a 5 year contract to deliver Green Deal works with the right to extend for 3 years. The obligations for warranties extend beyond this and there may be an ongoing relationship to provide maintenance services to consumers and also to manage the financing element of the activities (where the Local Authorities provide finance direct). This could be for a period of 25 years following the last installation.

**Rationale for adopting this approach**

This model is being adopted by Authorities who want to take full advantage of the Green Deal by ensuring that Green Deal delivery measures are provided and promoted within their regions as soon as possible after the formal launch of the Green Deal. Although the activities of the Green Deal Delivery Partner differ between the two active procurements, they are both characterised by a commitment from the Local Authorities to provide financing for the Green Deal. The approaches for a Local Authority to finance the Green Deal are reviewed within Section 4 of this report.

---

\(^6\) Further details on Newcastle’s scheme can be found at www.warmupnorth.com
## Role and Responsibilities

<table>
<thead>
<tr>
<th>Role &amp; Responsibility</th>
<th>Lead Deliverer</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control</strong></td>
<td>Green Deal Delivery Partner/ Council</td>
<td>The Council enters into a contractual relationship with the Green Deal Delivery Partner to provide managing agent services to promote green deal delivery. The Council’s control is therefore through the operation of the contract. This approach may not require the establishment of a new entity.</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Council/Green Deal Delivery Partner</td>
<td>The Green Deal Delivery Partner could report into a Local Authority Steering Group.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Delivery Partner may have a role in governance if a separate company is established where it has Board representation.</td>
</tr>
<tr>
<td><strong>Promotion of Green Deal to Consumers</strong></td>
<td>Green Deal Delivery Partner</td>
<td>These are a core service being procured from the Delivery Partner.</td>
</tr>
<tr>
<td><strong>Promotion of Green Deal to Suppliers</strong></td>
<td>Green Deal Delivery Partner</td>
<td>These are a core service being procured from the Delivery Partner.</td>
</tr>
<tr>
<td><strong>Actively managing demand</strong></td>
<td>Green Deal Delivery Partner</td>
<td></td>
</tr>
<tr>
<td><strong>Green Deal Provider</strong></td>
<td>Green Deal Delivery Partner</td>
<td></td>
</tr>
<tr>
<td><strong>Green Deal Assessment</strong></td>
<td>Green Deal Delivery Partner or local suppliers</td>
<td>Varying approaches are being adopted in this area including (i) the Green Deal Delivery Partner undertaking</td>
</tr>
<tr>
<td>Role &amp; Responsibility</td>
<td>Lead Deliverer</td>
<td>Comments</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------</td>
<td>----------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a certain amount of the assessments and sub-contracting the rest to local certified Green Deal suppliers; or (ii) all assessments being undertaken by local Green Deal certified suppliers</td>
</tr>
</tbody>
</table>

**Green Deal Installation**
Green Deal Delivery Partner or local suppliers
As above

**Financing**
Green Deal Delivery Partner
Although Local Authority financing is provided, the Green Deal Delivery Partner manages the draw down of this for individual Green Deals.

Early projects assumed that Local Authority funding would be provided through a financing SPV\(^7\) established by the Council and/or delivery partner to finance individual Green Deals. Later projects are examining the possibility that this function is provided by the Green Deal Finance Company. This is discussed in more detail within Section 4 of this report.

---

**Contractual Structure**
The Local Authorities enter into a contractual relationship with the Delivery Partner to deliver management agent services which cover the promotion and marketing and

---

\(^7\) Special Purpose Vehicle – a separate legal entity established for the purpose of financing the Green Deal within that area.
management of the Green Deal within the area. They may also cover the delivery of specific Green Deal works.

The diagram below summarises one structure for the Green Deal Partnership Model.

**Diagram 3.6: Green Deal Partnership Model**

*Commentary on the costs, risks and benefits associated with this approach for the Local Authority*

**Costs**
The costs of procuring a Green Deal Delivery Partner will be significantly higher than the other approaches reviewed however, this may be justified if the appraisal indicates that there is a significant increase in demand relative to the frameworks.

Local Authorities adopting this approach may also have exposure to the set-up and operating costs of the Green Deal Delivery Partner.

**Risks**
There are a number of risks associated with this model which should be carefully evaluated:

- **Scale** – the procurement and set-up costs of this model will be significant to both the public sector procurer and the private sector bidders. This results in a minimum scale of Green Deal work being required – this is estimated to be approximately £75m.
over 3 years. Bidders may require the public sector to underwrite some of this demand. Therefore, the specific risks associated with scale are:

- Will uptake be sufficient to cover the procurement and set-up costs?
- Will the public sector have to underwrite demand? This may involve utilising the Delivery Partner to undertake energy efficiency works on municipal buildings with provision for direct payment or a Green Deal finance plan.
- Will other Green Deal Providers compete in the local area offering more attractive rates and thus, attract more customers and impact upon the viability of the Local Authority partnership?

**Timescales** – this arrangement will need to be procured through competitive dialogue which takes 12-18 months to complete. The timescales mean that a delivery partner will not be in place when the Green Deal is launched in October 2012 with the earliest opportunity to have a partner in place being 2014. This may delay the Local Authority accessing ECO funding for its area through the Green Deal unless other funding and delivery mechanisms are in place in the meantime.

**Governance** – as more than one Local Authority is required to ensure sufficient scale the appropriate governance arrangements will need to be established. This may result in further delays to the timescales. The Energy Saving Trust and Marksman Report indicates that Scotland would only be able to sustain 1 or 2 such partnership models given the possible demand for measures.

**Benefits**
The benefits of this model are:

- **Demand**: It gives the Local Authorities more scope to manage and promote demand and brings in private sector expertise to assist in the process. For example, some Authorities are actively mapping the incidences of diseases associated with fuel poverty and working with the GPs in the relevant localities to identify the households who would benefit from a Green Deal. They are also mapping housing types and co-ordinating the promotion of neighbourhood schemes which could result in lower costs for householders due to economies of scale. These activities are not exclusive to this approach however, there is anecdotal evidence that parties are more prepared to engage with the private sector if it is part of a partnership with the Local Authority.

- **Collaboration** - The Green Deal Delivery Partner can cover a number of public sector organisations including RSLs, other Local Authorities and community bodies

---

provided they are named during the procurement. The more bodies that are included within the procurement, the more attractive the Partnership model will be to Green Deal providers.

- **Targeted Intervention:** It allows the Council to target the Green Deal providers activity to certain key groups – for example, KPIs can be developed which require that the proportion of Green Deals signed by households in fuel poverty is directly proportional to the number of households in fuel poverty in that area. In terms of the supply chain, specific KPIs can be developed for example covering the number of apprenticeships.

**Procurement Implications**
An anchor Local Authority or small group of authorities will need to procure a Green Deal Delivery Partner under competitive dialogue. The Scottish study indicated that Scotland could only support 1 or 2 such models and therefore, it recommended the identification of an anchor Authority to lead the procurement.

3.8. **Local Authority becomes a Green Deal Provider**

**Approach**
There is an opportunity for a Local Authority to become a certified Green Deal Provider in its own right.

**Rationale for adopting this approach**
If the Local Authority already has a significant in-house capacity to deliver works of this nature.

**Role and Responsibilities**

<table>
<thead>
<tr>
<th>Role &amp; Responsibility</th>
<th>Lead Deliverer</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control</strong></td>
<td>Council</td>
<td>Through the mechanisms used to control Council activities.</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Council</td>
<td>As above</td>
</tr>
<tr>
<td><strong>Promotion of Green Deal to</strong></td>
<td>Council</td>
<td>Council promotion.</td>
</tr>
<tr>
<td><strong>Consumers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Promotion of Green Deal to</strong></td>
<td>Not Applicable</td>
<td>Council may wish to sub-contract some of the work to local specialist suppliers.</td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Actively managing demand</strong></td>
<td>Council</td>
<td></td>
</tr>
</tbody>
</table>
Role & Responsibility | Lead Deliverer | Comments
--- | --- | ---
Green Deal Provider | Council | Council as a certified Green Deal assessor.
Green Deal Assessment | Council | Council as a certified Green Deal installer.
Green Deal Installation | Council | Council as a certified Green Deal installer.
Financing | Council | Council as the Green Deal Provider responsible for providing finance for Green Deals.

**Contractual Structure**
The Council would enter into the standard Green Deal contracts on each Green Deal.

**Commentary on the costs, risks and benefits associated with this approach for the Local Authority**

**Costs**
The costs associated with becoming a Green Deal Provider will include the accreditation costs, the costs of training staff and the costs of administering the Green Deal including sales costs, costs associated with undertaking the Green Deal works and the costs associated with running a loan system (although this may be outsourced). These would need to be carefully considered on an individual Authority basis.

**Risks**
This approach exposes a Local Authority to the maximum operational risks including Green Deal specific risks such as:

- **Consumer Credit Act and mis-selling** – the implementation of the Green Deal requires selling and marketing direct to householders and businesses. The risk of mis-selling is perceived as one of the most significant risks associated with the Green Deal initiative.

- **Green Deal Provider Finance** – the Green Deal Provider will need to organise the Green Deal finance; attract ECO funding and administer the loan systems attached to each Green Deal. These are activities that a Local Authority may be able to sub-contract however, they should give careful consideration to the risks involved and any interfaces arising if they contract out these services. The Green Deal Finance
Company may address these requirements and further details are provided within Section 4 of this report.

- **Warranties** – the Local Authority may retain liabilities for warranting the work which will need to be carefully monitored.

- **Competition** – the Local Authority will be competing within a competitive environment against other Green Deal Providers and the risks of this will need to be assessed in any Business Plan.

**Benefits**
The benefits associated with this approach include:

- **Demand** – Local Authorities tend to be trusted brands and are perceived as delivering work without the same profit motive affecting pricing. This approach may increase demand further.

- **Control of the Local Authority’s Reputation** – this approach gives the Local Authority the most control over reputational issues such as mis-selling, poor quality work and warranties. The Local Authority is not reliant upon framework providers or a delivery partner.

- **Utilises existing resource** – this approach may allow a Local Authority to utilise existing DSO resource and provide further training opportunities for the workforce through the Green Deal accreditation process.

- **Scale** – an individual Local Authority could become a Provider if the Business Case indicated that this was viable.

**Procurement Implications**
The Local Authority would need to procure supplies to deliver the Green Deal and any specialist sub-contractors they may need.

### 3.9. Summary
A Local Authority will need to carefully consider which approach it wishes to adopt to promote and deliver the Green Deal. The five approaches outlined above can be tailored to the specific objectives of a Local Authority and assessed in terms of the benefits they can deliver in comparison to the costs and risks associated with implementing them. The table overleaf provides a summary of the role of a Local Authority in relation to each of the models:
### Table 3.1: Local Authority responsibility for Green Deal Delivery Roles under the different approaches

<table>
<thead>
<tr>
<th>Role</th>
<th>Do Minimum</th>
<th>Frameworks</th>
<th>CIC</th>
<th>Green Deal Partnership Model</th>
<th>Green Deal Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Authority procures Green Deal services</td>
<td></td>
<td>√</td>
<td>?</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>Local Authority provides Green Deal support to local suppliers</td>
<td>√</td>
<td>-</td>
<td>√</td>
<td>?⁹</td>
<td>-</td>
</tr>
<tr>
<td>Local Authority markets the Green Deal</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Local Authority promotes and packages demand</td>
<td></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Local Authority responsible for Green Deal Set-up Costs</td>
<td></td>
<td></td>
<td>?</td>
<td>?</td>
<td>√</td>
</tr>
<tr>
<td>Local Authority responsible for Green Deal operational costs</td>
<td></td>
<td></td>
<td>?</td>
<td>?</td>
<td>√</td>
</tr>
<tr>
<td>Local Authority responsible for sourcing finance for Green Deal Plans</td>
<td></td>
<td></td>
<td>?</td>
<td>?</td>
<td>√</td>
</tr>
</tbody>
</table>

**Key**
- Not Applicable
- Applicable
- Dependent upon terms of arrangement

A Local Authority should consider how any Green Deal policy will interact with their wider policies on sustainability, fuel poverty and economic development. The synergies of these policies will maximise investment – this is especially important in relation to any Scottish Government funding for fuel poverty.

The financing of the Green Deal is explored further within Section 4 of this report.

⁹Yes, if sub-contracting to local suppliers is required
4. Financing the Green Deal

This section reviews the different sources of finance available to a Green Deal Provider who needs to organise finance for an individual Green Deal. It reviews options for Local Authorities to assist in this process.

4.1. Introduction

Under the Green Deal initiative, the Green Deal Provider is responsible for providing a Green Deal loan to the householder. Therefore, the Green Deal Provider needs to either have sufficient cash to be able to fund the loans itself or to source the loans from a third party.

The emerging sources of finance vary between the different models for Local Authority engagement and are summarised within the Table below. This indicates suitable sources of finance for each Local Authority intervention model:

Table 4.1: Sources of Finance Applicable to Each Local Authority Intervention Model

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>Do Minimum</th>
<th>Frameworks</th>
<th>CIC</th>
<th>Partnership Model</th>
<th>Provider Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Green Deal Finance Company</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Corporate Funding: (i.e. on balance sheet for the Provider)</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Other private sector sources of finance</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Local Authority Funding (Public Works Loan Board or reserves)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>
4.2. The Green Deal Finance Company ("TGDFC")

Outline

TGDFC\(^{10}\) is a not for profit company in the process of being established to provide Green Deal Loans to any Green Deal Provider. It was incorporated in March 2012.

TGDFC plans to raise funds in the capital markets to pay for energy efficiency schemes upfront, with a target of £500m in the first year. TGDFC’s objective is to assist in the availability of financing to fund the Green Deal through creating a new vehicle able to aggregate and then securitise Green Deal cash-flows. By packaging future cash-flows together into financial products, TGDFC will be able to raise money from a range of investors in the capital markets.

It has applied for £300m of initial funding from The Green Investment Bank to provide junior debt and is also in discussions with EIB. It will use revolving warehousing facilities to fund the Green Deal prior to refinancing in the capital markets. Any investment by The Green Investment Bank will be subject to state aid clearance unless provided on commercial terms.

TGDFC’s objective is to provide low cost finance to the Green Deal. It is proposing to lend to all certified Green Deal Providers at the same rate which is not reliant upon either the Green Deal Providers credit rating or the individual householders rating.

It is in the process of being established and is due to be operational in 2012.

TGDFC founding members include:

**Table 4.2: Founding Members of The Green Deal Finance Company**

<table>
<thead>
<tr>
<th>Utility Companies</th>
<th>Industry</th>
<th>Local Government/RSLs</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Gas</td>
<td>Carillion</td>
<td>Newcastle City Council</td>
</tr>
<tr>
<td>E.ON</td>
<td>Inst Group</td>
<td>Norfolk County Council</td>
</tr>
<tr>
<td>EDF Energy</td>
<td>Kingfisher</td>
<td>Gentoo (RSL)</td>
</tr>
<tr>
<td>Npower</td>
<td>Mark Group</td>
<td></td>
</tr>
<tr>
<td>SSE</td>
<td>Knauf Insulation</td>
<td></td>
</tr>
<tr>
<td>Scottish Power</td>
<td>Wilmott Dixon</td>
<td></td>
</tr>
</tbody>
</table>

\(^{10}\) Thegreendealfinancecompany.com
The following funders and advisors have been actively involved in establishing the company to date: - PwC, Linklaters LLP, Clifford Chance, Goldman Sachs International, HSBC Bank plc, Lloyds TSB plc and RBC Europe Ltd.

TGDFC will be responsible for administering and maintaining the loan book which is likely to consist of a high volume of low value loans.

TGDFC is in discussion with various Local Authorities to accept funding direct from an Authority which will be ring-fenced for Green Deals within that Authority’s area. This will result in a financing risk which Local Authorities will need to separately assess. This assessment should cover the vires of such an approach. This is considered further in Section 4.5.

**Applicability to Green Deal Delivery Models**

TGDFC will be applicable to any of the delivery models associated with The Green Deal.

### 4.3. Corporate Funding

**Outline**

Some Green Deal Providers may provide the Green Deal financing directly from their own resources i.e. secured on their own balance sheet. The appetite for this is as yet untested.

**Applicability to Green Deal Delivery Models**

In principle this source of finance will be applicable to any Green Deals. However, it will depend upon the appetite of the Green Deal Delivery Partner to provide finance.

### 4.4. Other Private Sector Sources of Finance

**Outline**

Other private sector sources of finance may emerge perhaps through specific finance packages established by individual Green Deal providers.

**Applicability to Green Deal Delivery Models**

This will need to be individually assessed as the sources of finance emerge.

### 4.5. Local Authority Funding including Public Works Loan Board (“PWLB”)

**Outline**

A number of Local Authorities such as Birmingham City Council and Newcastle City Council are considering providing finance for Green Deals within their Local Authority area (and their surrounding areas). This approach is often associated with the Green Deal Partnership Model but will also apply where a Local Authority wished to become a Green Deal Provider itself. The Local Authority may source funding from the Public Works Loan Board or its own reserves.
Two approaches for the provision of Local Authority funding are emerging:

1. The Local Authority establishes a Special Purpose Vehicle (“SPV”) to provide financing for the Green Deals delivered by a Green Deal Partner within their area. The SPV may be wholly owned by the Local Authority or jointly with the Green Deal Partner. The Local Authority provides the finance to the SPV who then provides this as a loan to support an individual, completed Green Deal.

   Under this model, the SPV continues in existence until the Green Deal loans are fully repaid. It may refinance part of the Local Authority’s loan with bond finance allowing the Local Authority to be repaid some of its loan. The feasibility of a bond refinancing is currently being examined on a national basis.

   If a Scottish Local Authority wish to adopt this approach they will require Ministerial approval to on-lend PWLB. The risks need to be carefully assessed as this approach exposes the Local Authority to funder risks associated with a high volume of low value loans such as loan administration costs, default costs and the financing risks if Local Authorities provide finance to the SPV for a shorter or longer duration than the underlying Green Deals. There may be significant refinancing risk where Local Authorities plan on the basis that the SPV will refinance in the medium term and then interest rates are higher than anticipated. This will result in the Local Authority incurring a loss or retaining a stranded asset.

2. The Local Authority on-lends finance into The Green Deal Finance Company. This approach is actively being considered by a number of Authorities who are willing to provide finance to support the Green Deal but do not want to be responsible for a SPV which has to manage a loan book. These Authorities are likely to rely on the due diligence being undertaken by the Green Investment Bank prior to lending into TGDFC.

   As with option 1, a Scottish Local Authority will require Ministerial approval to on-lend PWLB. The risks of this approach will need to be assessed as this is a Local Authority providing finance to an independent, third party finance company.

**Applicability to Green Deal Delivery Models**
This source of finance is likely to be linked to a Local Authority procuring a Green Deal Partner or deciding to become a Green Deal Provider itself. A Local Authority may however, decide to on-lend to TGDFC and make that available for any Green Deal Providers undertaking Green Deals within their Local Authority area.

---

11 Further details can be found at: Options Review of a Local Authority-led Partnership Model for The Green Deal in Scotland, Energy Saving Trust and Marksman Consulting LLP, May 2012
The approach is dependent upon the Local Authority having finance available (either through PWLB, reserves or pension funds). Local Authorities should seek specific financial and legal advice when considering such an approach. This advice may be sought collectively for all Scottish Local Authorities.

4.6. Summary

The financing of the Green Deal is a rapidly evolving area. As of June 2012, both the Local Authority financing of the Green Deal and the Green Investment Bank funding of The Green Deal Finance Company is subject to state aid clearance. Until this is obtained, all finance associated with the Green Deal will need to be lent at commercial rates which are also set at a rate which covers loan administration costs and an allowance for risk. A reasonable estimate of such a rate would be 7.5%\textsuperscript{12}.

\textsuperscript{12} The “Final Stage Impact Assessment for the Green Deal and Energy Company Obligation” published by DECC on 11 June assumed an interest rate of 7.5% with sensitivities at 6.5% and 9.5%
5. Summary

This section summarises the findings of the review and the time drivers for a Local Authority taking an active role in the roll out of the Green Deal.

The Green Deal is an important policy initiative which provides Local Authorities with an additional tool to address a range of policy objectives within their Local Authority area such as fuel poverty, employment and environmental objectives. The Department for Energy and Climate Change see Local Authorities playing a key role in the promotion of the Green Deal and a number of English Local Authorities are actively promoting the Green Deal through the procurement of Green Deal Delivery Partners or the establishment of community interest companies to promote the Green Deal.

The Green Deal is due to be launched in Autumn 2012 and Local Authorities will need to carefully consider how they wish to engage with the initiative. The approach which will be most suitable for an individual Local Authority will be one which:

- Reflects their specific objectives taking into account the existing footprint of their areas (i.e. fuel poverty, energy efficiency of buildings and carbon emissions);
- Takes account of the “Base Line” and the areas which a Local Authority can influence; and
- Reflects the Local Authority’s approach to risk especially in relation to the financing of the Green Deal.

This paper summarises a range of approaches which are available to a Local Authority. Some of these models such as The Green Deal Delivery Partner model will require a number of Scottish Local Authorities to actively collaborate to deliver it. The other models considered may require less collaboration but are likely to benefit from collaboration in terms of savings in procurement costs and attracting a wider market interest. The Green Deal will be launched in 2012 – the interventions which require to be procured under competitive dialogue are likely to take between 12-18 months to procure. Procurements under the restricted procedure – for example, for a framework of Green Deal Delivery Partners - are likely to take 6-9 months. There will be a period of preparation pre-procurement.

These timescales mean that Local Authorities who have not yet developed their approach to the Green Deal are unlikely to have delivery measures in place prior to the Green Deal being launched, risking the loss of ECO funding to Authorities who have such arrangements in place either for the launch of the Green Deal or shortly thereafter.