REPORT FOR DECISION

Bury COUNCIL

Agenda Item	

DECISION OF:	**CABINET**
DATE:	**6th FEBRUARY 2013**
SUBJECT:	**Approval of capital, to be included in 2013/14 to 2015/16 capital programme, to contribute to Green Deal Loan Finance in relation to the AGMA Green Deal Business Case.**
REPORT FROM:	**Cllr Gill Campbell, Cabinet Member for Neighbourhoods and Regeneration** **Cllr Tony Isherwood, Cabinet Member for Finance and Resource**
CONTACT OFFICER:	**Sharon Hanbury – Head of Urban Renewal, Adult Care Services**
TYPE OF DECISION:	**CABINET (KEY DECISION)**
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	On 30th November 2012, the Greater Manchester Combined Authority (GMCA) considered the GM Green Deal Business Case and approved the creation of a GM Green Deal and ECO Deliver Partnership, together with some associated recommendations. An aspect of the Business Case is that the Green Deal Finance, in the form of a loan fund, will be partly funded by GM local authorities. The capital requirement across GM is estimated to be £17m, with the contribution from Bury indicated to be £1.2m. Provision is required in the Capital Programme 2013/14 to 2015/16 for the anticipated input of £1.2m from Bury.
OPTIONS & RECOMMENDED OPTION	Option 1 Approve the inclusion of £1.2m capital within the Capital

	Programme 2013/14 to 2015/16, to cover Bury's anticipated contribution to the Green Deal Loan Finance in relation to the AGMA Green Deal Business Case. Option 2 Do not approve the capital funding Option 1 is the recommended option for the reasons set out in paragraphs 3.8 to 3.10.

IMPLICATIONS:		
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes	
Statement by the S151 Officer: Financial Implications and Risk Considerations:	Revenue costs associated with this scheme will be funded from existing AGMA budgets. Capital costs will require a contribution from each Authority; £1.2m in Bury's case. Subject to Cabinet approval of this report, then the £1.2m capital requirement will be included in the 2013/14 to 2015/16 Draft Capital Programme; to be financed through borrowing. This will entail revenue borrowing costs of circa £90k to be funded by the Council. It is anticipated that all costs will ultimately be recovered, and there may be a return on the initial investment. However this has not been proven and is subject to the risks outlined in the report.	
Statement by Executive Director of Resources:	This initiative will help address the issue of Fuel Poverty and mitigate the wider effects of Welfare Reforms.	MO
Equality/Diversity implications:	No see paragraph 2.16	
Considered by Monitoring Officer:	Yes This will be operated on a "Lead Authority" arrangement and Manchester City Council is currently indicated as leading. The arrangement to govern this will be finalised once the procurement exercise has been completed.	JH
Wards Affected:	All	
Scrutiny Interest:	Overview and Scrutiny Committee	

TRACKING/PROCESS **DIRECTOR: EDS/EDR**

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
18/01/13	10/12/12 21/01/13		GMCA 30/11/12
Scrutiny Committee	Committee	Council	

1.0 BACKGROUND

The Green Deal and ECO

1.1 Launched in October 2012, the Green Deal (GD) is the government's flagship environmental policy, seeking to unlock private investment primarily in domestic properties. This will be achieved by funding energy efficiency measures at no up-front costs to the consumer, through a loan which will be linked to the electricity meter rather than the individual. The loans are repaid over time (up to 25 years), based on a 'golden rule' where projected savings in energy bills are greater than the cost of repayment.

1.2 The GD will work closely with the Energy Company Obligation (ECO) which is essentially a subsidy distributed by the energy companies and funded through a levy on all our energy bills. Implemented alongside the Green Deal, £1.3bn of ECO per annum will be used to support those in fuel poverty, in the poorest neighbourhoods and in the UK's hardest to treat houses.

1.3 GD and ECO will replace all existing programmes and subsidies that have driven growth in the domestic energy efficiency market in the last 5 years. There are significant challenges and opportunities for GM within this framework.

The AGMA GD proposals and the GMCA approval

1.4 In November 2012, AGMA agreed that a business case should be prepared to explore whether local authority involvement in the Green Deal could bring added value and benefits to the local area, and if so the optimum approach for local authorities in GM to influence delivery.

1.5 The subsequently developed business case sets out a proposed 3 year local authority led GM programme, to catalyse locally focussed activity. GM local authority branding and local knowledge will be used to attract and engage local residents in the Green Deal. A panel of Green Deal Providers will be procured and managed by a Lead Authority to deliver Green Deal loans, the installation work and ongoing warranty requirements, on behalf of participating Local Authorities.

1.6 It is expected that of the £68m Green Deal Loan Finance, 75% will be provided by The Green Deal Finance Company (TGDFC) with 25% (£17m) being provided by GM local authority investment. AGMA are continuing discussions with TGDFC and Department of Energy and Climate Change (DECC) in respect of a number of detailed matters.

1.7 At the end of this 3 year period, local authorities might choose to extend, continue or end their involvement – based on the development of the market and the success or otherwise of the programme.

1.8 On 30th November 2012, GMCA considered the Green Deal Business Case and:

- Approved the creation of the GM GD Partnership, in line with a developed business case.
- Approved £1.29m funding for the initial procurement and set up costs, to be provided within AGMA resources.
- Agreed to move immediately into the procurement stage of the project.
- Noted the estimated £17m capital funding required across GM local authorities, with the final detail and funding arrangements to be reported back to the GMCA when the final results of the procurement exercise are known in mid 2013/14.
- Requested that the outcome of the procurement process be reported back to GMCA so that the business plan can be re-validated alongside an updated analysis of risks and strategies for managing these.

The benefits of the proposals

1.9 Whilst the private sector will have a lead role in the Green Deal and ECO, the AGMA proposals provide for much greater control, an increased likelihood of take-up and maximisation of benefits for the GM area as follows:

- Demonstrating AGMAs leadership in climate change
  - Carbon emission reductions are estimated to be up to 22,500 tonnes per annum
- Maximising take-up, improving the coldest homes and helping our poorest households, with estimates over 3 years of:
  - At least 15,000 properties improved (*1052 in Bury*)
  - Gaining £100m capital investment in GMs housing stock (*£4.6m in Bury*)
  - Attracting £16.5m of ECO investment (*£1.2m in Bury*)
  - At least 2000 households being supported out of fuel poverty (140 in Bury)
- Retaining economic benefits in GM, estimated over 3 years to be:
  - 1077 fte jobs based on wider supply chain (*76 in Bury*)
  - Opportunities for new GM apprenticeship and training activities
  - £36m of GVA (*£2.6m in Bury*)

2.0 ISSUES

Financing the proposals

Revenue Costs

2.1 GMCA has approved the funding of up to £1.29m for the initial procurement/ set up costs, to be met from within AGMA/CA resources. Ongoing revenue costs are provided for within the financial model. Therefore there are no direct costs per se for Bury in this regard.

Capital Costs

2.2 In relation to the loan fund, the proposal is for this to be financed through the Green Deal Finance Company (TGDFC), with GM local authorities investing 25% of the total finance into the TGDFC. This GM investment is estimated to be £17m across AGMA. Split proportionately to number of households in local authorities, this equates to £1.2m (7%) for Bury.

2.3 The £17m input is at this moment assumed, with a possibility that the proportion of GM investment required could be reduced. It is also likely that the input from local authorities will be staggered in line with activity over a 3 year period to 2013/14 to 2015/16.

2.4 Opportunities could provide a return on investment ranging from 4-11% over the cost of borrowing, dependent on level of risk.

2.5 All project costs, including procurement and set up costs and costs of finance will be recovered over the lifetime of the programme (28 years), subject to risks.

3.0 RISKS

3.1 A full risk register has been produced as part of the business case, with the major risks set out in brief below:

Risks around the level of take-up, particularly early take-up, and the delivery of outcomes:

3.2 Nationally there are a number of concerns about implementation of the Green Deal and levels of take-up in the early years which would impact upon the level of benefits set out at paragraph 1.9 above. However, this is the principal reason why a public/ private partnership is proposed by GM as this provides for the greatest chance of success in development and delivery of this framework.

Financial risks:

3.3 The GM capital investment (including Bury's contribution) is at risk; particularly as it is necessary to provide this as a 'first loss' junior debt layer. Risks arise from a number of factors, including, most importantly, if there are higher than anticipated default rates on loan repayments and /or lower take up of GD than anticipated.

3.4 There are also risks that the investment return will be lower than the expected 4%-11%. This could have a number of impacts including inability to recover costs (such as set up, running costs, costs of finance etc.) and revenue implications should there be any reduction in capital valuation. In addition to losses, there could potentially be a need for additional financial inputs either from GMCA or GM local authorities.

3.5 Whilst the current risk assessment provided as part of the Business Case highlights the probability of these risks occurring and losses incurred by GM local authorities, work is ongoing within AGMA in relation to risk management. It is also proposed that an updated analysis of risk and strategies for managing these will be presented to GMCA following the outcome of the procurement process. Additionally, GM would not invest in TGDFC until full due diligence and other financial checks were undertaken.

Risk that the amount of capital required from GM and thus Bury will be higher than the anticipated level:

3.6 This is only likely to occur should TGDFC finance route be unavailable. Should this be the case, a further decision will be required by GMCA which would include whether GM local authorities increase their prudential borrowing to cover the full amount, whether a different approach is followed or whether to withdraw from the market and write off abortive procurement and set up costs.

3.7 The £17m input is at this moment assumed. It is possible that the proportion of GM investment required could reduce.

Risks of Bury not approving the capital contribution:

3.8 As set out, the proposals have been agreed at GMCA on 30th November. The capital input of £17m across GM authorities (equating to £1.2m for Bury) has also been noted and in essence (albeit subject to consideration of matters by GMCA following the procurement stage) confers a commitment of GM authorities in providing this capital input.

3.9 Failure of GM authorities to contribute would seriously impact the proposals, potentially meaning that they could not be taken forward.

3.10 Given the above, there are reputational risks for Bury if our capital contribution is now not approved and provided as required. If the AGMA GD proposals are not taken forward, or if Bury is not included, then there are considerable risks in failure to realise the considerable potential of the GD/ECO framework.

4.0 EQUALITY AND DIVERSITY

The Equality Analysis document relating to this project is attached. There are no issues or recommendations identified within it.

5.0 CONSULTATION

5.1 Throughout the development of the AGMA Business Case there has been consideration of and input into these proposals both at AGMA level and also within Bury.

5.2 At AGMA level, relevant officers have been kept up to date and where possible have been involved as stakeholders. The proposals have for instance been presented at various AGMA meetings where officers and members from Bury have been in attendance e.g. AGMA Chief Officers Group, Treasury Group, Wider Leadership Group and Leaders Group.

5.3 Additionally relevant officers from Housing (including Six Town Housing), Finance, Communities and Environment perspectives have considered these proposals for Bury as they have evolved.

5.4 This report will be circulated to relevant officers in addition to Senior Leadership Team.

List of Background Papers:-

GMCA Report 30th November 2012 – GM Green Deal Business Case
Equality Analysis

Contact Details:-

Sharon Hanbury
Head of Urban Renewal
Adult Care Services
0161 253 6350
s.m.hanbury@bury.gov.uk

Graham Atkinson
Executive Director Environment and Development Services
0161 253 5736
g.atkinson@bury.gov.uk