

Committee: Sustainable Communities Overview and Scrutiny Panel

Date: 16 March 2016

Wards: all

Subject: Climate Change and Green Deal Task Group

Lead officer: Director for Environment and Regeneration, Chris Lee

Lead member: Councillor Andrew Judge, Cabinet Member for Environmental Sustainability and Regeneration,

Contact officer: Damian Hemmings (Future Merton)

Recommendations:

- A. The Panel discuss and comment on the latest report and accompanying action plan detailing progress on the implementation of the agreed recommendations of the Climate Change and Green Deal Task Group.
 - B. That future progress reporting is limited to those on-going recommendations that relate to energy charging and the development of a Merton ESCO (i.e. Recommendations: 7, 8 & 9).
 - C. That progress reports on the above actions are henceforth reported to the commercialisation of council services scrutiny task group, due to the commercial nature of the recommendations and the large financial implications for the council..
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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to set out the Executive Response and Action Plan to the Sustainable Communities Overview and Scrutiny Panel to demonstrate how the agreed recommendations of the Climate Change and Green Deal Task Group will be implemented.

2 DETAILS

- 2.1. At their meeting on 30 June 2014, Cabinet considered the final report and recommendations resulting from the task group review of Climate Change and the Green Deal. Officers have since been tasked with delivering the agreed recommendations.
- 2.2. Members received an update on progress at their meeting in September 2015. This paper presents a summary of progress made since the last meeting.

Progress on agreed recommendations

- 2.3. Appendix A to this report sets out the Task Group's recommendations, status and progress on each issue. It should be noted that some of the recommendations must take place sequentially. Actions have therefore been reordered to reflect their sequential progress.
- 2.4. A summary of the progress since the Task Group reported their 11 recommendations to Cabinet in June 2014 is included below. Full details are included in Appendix A:

- **9 / 11 recommendations have been completed / on-going:**
 - Recommendation 1: Work with public and private landowners to install solar PV on their buildings. Deemed complete: 17/12/2015.*
 - Recommendation 2: Cabinet explore how solar PV could be made available to residents to access at cheaper rates/costs and how the council may promote or support this scheme. Deemed complete: 17/12/2015.*
 - Recommendation 3: Adoption of Merton's Climate Change Strategy. Completed: 09/07/2014.*
 - Recommendation 4: Build consideration of energy efficiency measures in appropriate contracts by procurement. Completed: 17/11/2015.*
 - *Recommendation 5: Climate Change Steering Group participants from each directorate. Completed: 21/10/2015.*
 - *Recommendation 6: Feasibility of delivering a local Merton Green Deal. Deemed complete: 01/10/2015.*
 - *Recommendation 9: report on ESCO legal advice (Appendix B: available to councillors only on request). Completed: 04/12/2015.*
 - *Recommendation 10: Climate change marketing and engagement strategy (Appendix C). Completed: 12/11/2015.*
 - *Recommendation 11: Cabinet to consult Circle Housing/MPH on opportunities for joint working on the task group recommendations. Status: On-going.*
- **Two recommendations are outstanding:**
 - *Recommendation 7: That Cabinet commission a feasibility study to look at establishing an Energy Services Company*

Consultants AECOM have been appointed to explore the techno-economic feasibility for establishing district heating scheme(s) in the borough. Anticipated completion date: 31/03/2017.
 - *Recommendation 8: Report on progress and future expansion potential of Merton solar PV portfolio.*

Officers are currently considering options; a report to Cabinet is in development. The expansion of the solar PV will be determined by financial viability in light of the Feed in Tariff review, and the scope for the introduction of energy charging. Anticipated completion date: 31/03/2017.

3 ALTERNATIVE OPTIONS

- 3.1. None for the purposes of this report

4 CONSULTATION UNDERTAKEN OR PROPOSE

- 4.1. Internal engagement is undertaken via the council's Climate Change Steering Group, chaired by the Director of Environment and Regeneration. The

quarterly meetings are organised thematically in accordance with the sustainability themes outlined in the Climate Change Strategy.

- 4.2. Wider engagement with community stakeholders and partners is undertaken through Merton's Environmental Sub-Group of the Merton Partnership.

5 TIMETABLE

- 5.1. The action plan for the Climate Change Strategy and the final report of the Task Group review (Appendix A) set out the timescales for delivery.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The Council faces considerable financial pressure in current and future years. The delivery of the Task Group recommendations has the potential to contribute on-going savings and open up new income streams for the council.
- 6.2. Due to the large financial and commercial implications of the development of a Merton ESCO, it is imperative that these issues are considered as part of the wider scrutiny review into the commercialisation of council services.
- 6.3. Officers therefore recommend that the remaining actions related to the development of a Merton ESCO are reported to the council's Commercial Services task group.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The initial legal implications of energy generation, supply, distribution and sales are outlined in Appendix C.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. None for the purposes of this report.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. None for the purposes of this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. None for the purposes of this report.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix A: Action Plan and progress to date on the agreed recommendations resulting from the Task Group review of Climate Change and the Green Deal.
- Appendix B: Bevan Brittan report: Legal & statutory implications relating to the generation, supply, distribution and sale of energy (available to councillors only on request)
- Appendix C: Climate Change Communication Plan.

12 BACKGROUND PAPERS

Report of the Climate Change and Green Deal Task Group (June 2014);

Appendix A: Executive response to the recommendations of the Climate Change and Green Deal Scrutiny Task Group

It should be noted that many of the Task Group's eleven recommendations must take place sequentially. The Task Group's recommendations have been reordered to reflect this.

Recommendations	Stakeholder	Action / Progress	Timeline	Status
<p>Recommendation 9 – That Future Merton obtain specialist legal advice on the Council's scope and legal limitations in generating, distributing and selling energy and advise on the development of an ESCO (paragraph 8.40)</p>	Cabinet	<p>The legal firm Bevan Brittan was appointed in August 2015 following a competitive tender process to provide a report on the legal implications of Merton's energy proposals.</p> <p>The final report (Appendix B: available to councillors only on request), completed in December 2015, provides an overview of the relevant legal issues on a range of potential local energy proposals, including: energy charging for solar PV, local heat distribution and the business models that can be applied to deliver these schemes. In summary, the report findings are:</p> <ul style="list-style-type: none"> • The council has the power to adopt its energy proposals but further detailed advice will be needed once LBM has determined its priorities and developed the business case for these projects. • As one of the objectives of this work is trading and income generation, there is a legal obligation for the council to trade through a company. Charging for electricity is likely to constitute trading. <p><u>Solar PV proposals:</u></p> <ul style="list-style-type: none"> • Power purchase agreements (PPA) have already been agreed with schools so introducing energy charging should be relatively straightforward – but there is scope 	Oct 2015	Complete

		<p>to strengthen the PPAs from a contractual perspective to ensure they are enforceable.</p> <ul style="list-style-type: none"> • It's recommended that the PPAs are entered into between the school and a company (i.e. not between the school and the council). <p><u>Non-operational sites: (inc. commercial, housing – social & private)</u></p> <ul style="list-style-type: none"> • Careful consideration is required of the terms of any lease granted to the council particularly re: ownership of the roof space • There are <i>significant complexities</i> around the installation of PV on social housing sites that may be prohibitive to the expansion of this proposal. <p><u>District heating proposals:</u></p> <ul style="list-style-type: none"> • Depending on the role the council wishes to take, it will need to enter into various commercial agreements; including power purchase and connection agreements. • The council will need to consider whether generation / supply are required, or whether it can take advantage of exemptions, in respect of its final energy proposals. • Further exploration of the district heat opportunities and proposals will be informed by the HNDU funded work (see Recommendation 7). <p><u>Organisational structures:</u></p> <ul style="list-style-type: none"> • There are a range of options that could be explored depending upon the aims of the 		
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		<p>council. This can include both local authority owned and public/private partnership models. The selection of the model will be determined by the role that Merton takes in local energy provision, weighted against financial and risk parameters.</p> <ul style="list-style-type: none"> The 'Teckal' corporate vehicle to supply electricity back to Councils is increasingly taking place in the local authority market. This model is one that the council may wish to consider in its exploration of delivery vehicles for its energy activities. <p>Further detailed legal advice may be required once the ESCO opportunities for Merton are further informed from the outcomes of Recommendation 7 (detailed below).</p>		
<p>Recommendation 7 – That Cabinet commission a feasibility study to look at establishing an Energy Services Company (ESCO) for Merton, with a view to producing a business case for the ESCO which should include a risk assessment of the proposals. A further detailed investigation into the potential for a Merton ESCO should include:</p> <ul style="list-style-type: none"> Feasibility investigations into the potential for district heating at Morden Town Centre and Colliers Wood / South Wimbledon Further scoping of energy efficiency retrofit potential in Merton Identification of where existing regeneration proposals/programmes may take forward energy efficiency improvements, alone or in partnership without the need for an ESCO to be in place. (paragraph 8.40) 	<p>Cabinet</p>	<p>AECOM have been appointed to undertake energy master-planning and district heating feasibility for Merton following a competitive tender in November/December 2015.</p> <p>This work is primarily (66%) funded by grant funding secured through DECC's Heat Networks Distribution Unit (HNDU). The remainder is funded by Future Merton.</p> <p>The contract will:</p> <ul style="list-style-type: none"> Deliver a comprehensive assessment of the potential opportunities and options for establishing a district heating scheme in connection with major regeneration schemes within the borough. Explore the full range of potential options for developing a decentralised energy 	<p>Mar 2017</p>	<p>G</p>

network in Merton.

- Examine the different options and approaches for network development.

The work will be delivered in three stages set out in two phases:

- Phase 1: refresh of borough district heat mapping; a review of the Council's CHP opportunity areas, and energy master-planning in order to identify the full range for potential district heating options in relation to major regeneration projects around the High Path Estate and Morden Town Centre (Map 1).
- Phase 2 – Part 1: High level feasibility and options appraisals for the opportunity areas around the two regeneration projects at Morden Town Centre and South Wimbledon / Colliers Wood.
- Phase 2 – Part 2: Detailed feasibility studies and financial modelling for the preferred options in order to support the delivery of the energy master-plans.

The consultants will deliver the district heat feasibility work over the period December 2015 – March 2017 in accordance with the following outline programme of works:

- a) Heat mapping refresh and energy master-planning (borough wide)
- b) Workshop 1 (Councillors & Senior Officers)
- c) Council decision (Break point 1)
- d) High level techno-economic feasibility

		<ul style="list-style-type: none"> e) Workshop 2 (Councillors & Senior Officers) f) Council decision (Break point 2) g) Detailed techno-economic feasibility h) Workshop 3 (Councillors & Senior Officers) i) Final report <p>Together with the legal report produced via Recommendation 9, this work will enable the Council to gain a detailed understanding of the technical, financial and sustainability issues around developing an ESCO in the borough. The Council will then be better placed to determine what options there are for ESCO development and what implications there may be for the council.</p>		
<p>Recommendation 8 – That Cabinet receives a report on progress on rolling out the expansion of the Merton solar PV portfolio, and on the scope for making further investment, subject to the results of a scoping exercise and a viable business case. This business case should include an appraisal of whether this should be undertaken via an ESCO or not (paragraph 8.40).</p>	<p>Cabinet</p>	<p>Merton’s current PV installed capacity is 1.5MWp (mega-watt peak). This includes installations on 34 sites. The council is in the process of installing a further 160kWp of solar PV on five sites prior to the end of the current financial year.</p> <p>In December 2015 the Government announced its review of the Feed in Tariff. As a result FiT subsidies have been reduced across all capacity bands, and will continue to do so when certain ‘tariff depression’ thresholds are reached. This has had a significant impact on the business case for solar PV expansion.</p> <p>Any future PV installs will be subject to the new (reduced) tariff rates. As a result, the council has been exploring a broad range of options to enable future installations. This includes:</p>	<p>Due – summer 2016</p>	<p>G</p>

		<ul style="list-style-type: none"> Increasing the system payback period Factoring in electricity bill savings from displacing grid consumption (LBM corporate sites only) Implementing energy charging on existing PV sites <p>The business case for continued expansion of PV on any non-corporate sites (including schools) is currently marginal; even with the use of PPAs. It is therefore likely that further tariff depression will render non-corporate projects unviable. As such, the council is aiming to maximise non corporate installs under the existing business case, before tariff depression pushes them into non-viability.</p> <p>The council is currently considering the options for development of the PV portfolio in light of these issues. A report to Cabinet exploring future options is in development.</p>		
<p>Recommendation 1 - That Cabinet, further to maximising the potential of its own sites, work with other public and private sector landowners, such as Registered Providers, private homeowners, businesses and community organisations installing solar PV (photovoltaics) on their buildings where this is supported by a business case (paragraph 4.17).</p>	Cabinet	<p>As outlined in Recommendation 8, Government changes to the Feed in Tariff rates, as announced in December 2015, have reduced subsidies across all PV system bands. This has had a significant impact on the business case for solar PV expansion.</p> <p>Due to these changes the council will prioritise solar PV expansion on those sites where:</p> <ul style="list-style-type: none"> It can additionally benefit from electricity bill savings through offsetting grid electricity (i.e. council owned sites); or Energy charging may be more easily implemented. 	December 2015	Complete

		<p>The outcomes of Recommendation 9 (Legal report) have highlighted the complexities and challenges in instigating energy charging on third party sites – notably on social housing.</p> <p>It is therefore unlikely in the present economic and political climate that the council would seek to install solar PV outside of those sites where it retained an ownership or operational interest.</p> <p>The recommendation has been explored and progressed as far as possible and is therefore deemed complete.</p>		
<p>Recommendation 2 - That Cabinet explore how solar PV could be made available to residents to access at cheaper rates/costs and how the council may promote or support this scheme to enable communities to purchase their own renewable technology. This may be achieved through external capital investment or the ESCO (paragraph 4.17).</p> <p>*Note that this recommendation being implemented is dependent upon recommendations 8 and 9 being achieved.</p>	Cabinet	<p>In September 2015 Merton was in the process of exploring the potential for a collective (bulk) PV purchasing trial for residents called ‘Solar Together’. This scheme was based on a successful trial of bulk purchasing delivered in Norfolk by the organisation iChoosr in autumn 2015.</p> <p>In December 2015 the Government finalised its Feed in Tariff review, with solar PV subsidies for domestic systems (<10kW) reducing by 63.5%. As a result of these changes iChoosr postponed the Solar Together scheme and it is unlikely to recommence under current market conditions.</p> <p>In lieu of any alternate external funding support, and due to the lack of a viable business case for LBM to support any expansion on non council owned sites at present (see comments in Recommendation 1, above), it is unlikely that this recommendation can be progressed any further. The recommendation is therefore deemed complete.</p>	Dec 2015	Complete

<p>Recommendation 3 - That the council adopt Merton's Climate Change Strategy 2014-2017, which has been reviewed by the Task group and revised to take account of its recommendations (paragraph 5.6).</p>	Cabinet	CC Strategy 2014-2017 adopted at full council	July 2014	Complete
<p>Recommendation 4 - That Cabinet agree to build consideration of the adoption/installation of energy efficiency measures in appropriate council contracts being established or renewed by procurement, where feasible (paragraph 5.6).</p>	Cabinet / Partners	<p>There is limited scope to adopt an all encompassing approach to inclusion of energy efficiency measures in council contracts. However, measures may be taken on a case-by-case basis, where deemed appropriate.</p> <p>In addition, new public contracts regulations (implemented in February 2015) include a pre qualification questionnaire that can be used in all procurement exercises that are over the EU services threshold (£172,514) although this is not obligatory.</p>	Nov 2015	Complete
<p>Recommendation 5 - That representatives from each council Directorate participate in the Climate Change Steering Group, as appropriate, to consider cross cutting issues and projects relating to tackling climate change to ensure a strategic focus and leadership on climate change priorities (paragraph 5.6)</p>	Cabinet	Climate Change Steering Group meetings are structured thematically in line with the key topics detailed in the CC Strategy and the actions incorporated therein. Representatives from relevant directorates are invited to attend meetings accordingly.	On-going	Complete
<p>Recommendation 6 - That Cabinet commission a proposal on the feasibility of whether Merton might roll out a local Green Deal that addresses some of the issues associated with the national Green Deal scheme, as reported by residents, which has resulted in low take up (paragraph 6.16).</p>	Cabinet	<p>The Green Deal Finance Company was closed by Government in April 2015; effectively ending the Green Deal scheme. To date there have been no announcements on any replacement for the Green Deal.</p> <p>The establishment of a local 'Green Deal' scheme would be incredibly challenging without a national Green Deal framework / mechanism to support this and without significant dedicated funding (none allocated in existing budgets).</p> <p>Recommendation 6 has been progressed as far</p>	Oct 2015	Complete

		<p>as possible under current market conditions and is no longer deemed viable. The recommendation is deemed complete.</p> <p><i>(N.B. Future Merton is delivering a non-domestic energy efficiency project for businesses having secured £175k of funding from the London Enterprise Panel). The 'Brighter Business' scheme will aim to increase business resilience through energy efficiency over the period 2015-17).</i></p>		
<p>Recommendation 10 - That the council develop a marketing and engagement strategy to ensure the widest promotion and awareness raising of energy efficiency measures and improvements that staff, residents and local businesses can access (paragraph 9.6)</p>	Cabinet	<p>A Climate Change Communication Plan was prepared by the Communication Team in November 2015. A copy of the plan is available for review in Appendix C. This will form the basis of communication and engagement to be undertaken each year. Additional project bases communication plans will be developed for individual projects, as per the Merton Approach to Projects (MAP).</p>	Nov 2015	Complete
<p>Recommendation 11 – Cabinet to consult Circle Housing/MPH on the possibility of joint working and initiatives that could be taken forward in partnership that the task group have made recommendations on (tabled at the SC Panel meeting on 26th March 2014).</p>	Cabinet / Circle Housing	<p><i>Recommendation wording has not been defined.</i></p> <p>The council has actively consulted with MPH on sustainability issues via the housing regeneration programme (see progress on Recommendation 7). The council will continue to consult MPH on joint working opportunities as they arise, including the ESCO feasibility work to be undertaken by AECOM (Recommendation 7).</p>	On-going	Complete (on-going)

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