

Birmingham City Council

Report to Cabinet

25 June 2024



Subject: Scaling up retrofit through Energy Company Obligation 4 (ECO4) and Great British Insulation Scheme (GBIS)

Report of: Paul Langford, Strategic Director, City Housing

Relevant Cabinet Member: Cllr Jayne Francis, Cabinet Member for Housing and Homelessness

Relevant O & S Chair(s): Cllr Jamie Tennant, Homes Overview and Scrutiny Committee

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 012808/2024		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 This report seeks to set out the approach to secure retrofit concessionaires to scale up the delivery of the Energy Company Obligations (ECO) and Great British insulation Scheme (GBIS) to deliver our ambition of installing energy efficiency measures to up to 3000 homes per year.
- 1.2 This will lead to significant inward private investment (estimated c. £60m to March 2026 with potential for ongoing annual inward investment from April 2026 onwards) to homes across Birmingham, help reduce fuel bills to tackle the cost-

of-living crisis for our residents and tackle health issues caused by cold, damp homes. The programme has some potential to create savings against the Housing Revenue Account through the use of ECO to deliver retrofit measures to meet the Asset Management Strategy commitment for all BCC homes to meet EPC C by 2028.

- 1.3 Additionally, the programme will generate revenue of up to £300k to March 2026 (and potential for similar amount per annum following that) to administer this work and increase the team's capacity to drive demand for retrofit whilst building our capacity to deliver similar schemes.
- 1.4 In light of the Council's Budget Saving targets for 2024-2025 this programme will generate sufficient revenue to cover or exceed the costs to administer this work and increase the teams capacity to drive demand for retrofit whilst building our capacity to deliver similar schemes.
- 1.5 In order to ensure that the project remains on target and installations are completed to industry standard, the procurement specification ensures that there are monthly progress meetings with all concessionaires. Where quality in delivery is not met, the council will have the option to withdraw the concession.
- 1.6 Corporate procurement have been engaged and consulted throughout the development of the scale up of ECO4 to ensure compliance with the procurement regulations and best approach to commercial engagement. Any conflicts of interest must be disclosed as part of the tender and appointment to the approved installer list will be awarded based on the Most Economic Advantageous Tenders (MEAT) received.

Energy Company Obligations and Great British Insulations Scheme

- 1.7 Both ECO and GBIS are government supported programmes and are funded by the large energy companies. Each of the schemes has funding in the region of £1bn to be spent by March 2026 (although DESNZ has suggested this may be extended).
- 1.8 ECO has been running since 2013 and is now in phase 4. ECO5 is already in discussion at DESNZ and is expected to run from 2026 for 3 years which means that establishing the infrastructure now to deliver these projects will put Birmingham in a position to significantly scale up retrofit delivery.
- 1.9 The energy companies are responsible for spending the money to improve the energy efficiency of homes with a focus on households most impacted by fuel poverty and rising cost of living.
- 1.10 For Birmingham, ECO and GBIS provide a significant opportunity to increase fully funded investment into retrofitting energy inefficient homes for both private households and social homes across Birmingham. Leveraging these initiatives can improve energy performance, reduce fuel bills for families, and support the council's Net Zero goal while also reducing the demand on the

HRA. A more co-ordinated approach led by the Council will help improve the installation quality currently being seen across the City.

- 1.11 This report outlines how the Council will commission concessionaires to implement ECO4 and GBIS, driving the retrofitting of up to 3,000 homes per year.

2 Recommendations

That Cabinet:

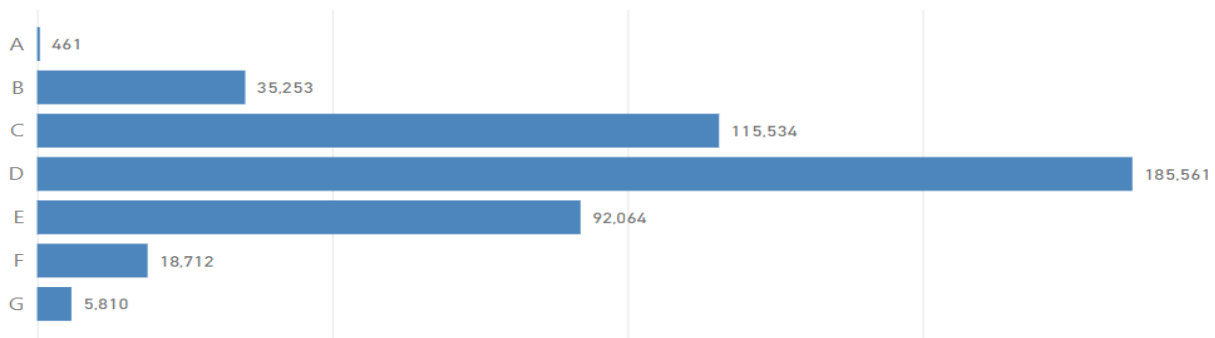
- 2.1 Approves the Council's procurement strategy and commence the procurement to secure 3 to 5 concessionaires to deliver ECO and GBIS retrofit installations.
- 2.2 Delegates authority to the Strategic Director of City Housing in consultation with the Interim Director Commercial & Procurement (or their delegate), the Strategic Director of Council Management (or their delegate), and the Interim City Solicitor & Monitoring Officer (or their delegate) to approve the appointment of concessionaires and award concession agreements with each concessionaire for an initial contract period of 17 months in consultation with the Cabinet Member for Housing and Homelessness and Assistant Director for Route to Net Zero.
- 2.3 Delegates authority to the Strategic Director of City Housing to extend the contracts in accordance with the contract terms and subject to satisfactory performance.
- 2.4 Delegates authority to the Assistant Director of Housing, Strategy and Enabling in consultation with Assistant Director of Route to Net Zero to agree the annual allocation of the income generated through the concession agreements. To be agreed annually and in line with the proposed spend areas identified at paragraph 3.30.
- 2.5 Authorises the Interim City Solicitor and Monitoring Officer (or their delegate) to negotiate, execute and complete all necessary legal documents to give effect to the above recommendation.

3 Background

The Housing Challenge

- 3.1 A large proportion of the 450,000 homes in Birmingham are old and poorly insulated. This leads to cold, damp, draughty homes which are expensive to heat and are a major contributor to fuel poverty. Government statistics estimate that **23% of Birmingham residents live in fuel poverty. However, independent analysis indicates that this could be over 50% in some areas of the city**¹.

¹ [Constituency fuel poverty statistics - End Fuel Poverty Coalition](#)



Data from Parity Projects ©

- 3.2 As can be seen in the above table the majority of homes in Birmingham (68%) have an Energy Performance Certificate (EPC) of D or below. This means that over **300,000 properties are energy inefficient and will require investment** to meet the minimum recognised standard of energy performance as measured by the Standard Assessment Procedure (SAP) used in the preparation of Energy Performance Certificates (EPCs).
- 3.3 Homes are responsible for **36% of the city's carbon emissions**, largely due to the use of gas for space and hot water heating. Investment in energy efficiency and heating replacements need to happen at scale to realise our Net Zero ambitions. Additionally, damp, cold homes can exacerbate serious health issues. Respiratory and cardiac illness, poor child development, hypothermia and poor mental health caused by **cold homes costs the NHS £1.4bn per year nationally!**

Retrofit – Improving Health, Reducing Fuel Bills, Cutting Emissions

- 3.4 Upgrading the energy performance of Birmingham homes, primarily via insulation, heating systems and renewable energy generation will deliver positive energy performance, carbon emission reductions and improved health outcomes. Investment in improved energy performance also removes draughts and can eliminate damp and mould caused by poor insulation or inadequate heating and ventilation. By improving the energy performance of a home, less energy is required to heat it and it becomes more comfortable to live in. By promoting the delivery of retrofit projects across all tenures in the city, the Council can address health and fuel poverty issues as well as making a large step towards net zero.
- 3.5 The scaling up of ECO and GBIS has additional positive environmental and sustainability impacts. By making buildings more energy-efficient, the scheme significantly reduces both energy demand and the extraction of non-renewable resources. It also decreases air pollution from energy production and consumption. The focus on retrofitting existing structures also reduces construction waste. By implementing sustainable practices in retrofitting housing, Birmingham City Council can significantly impact housing retrofit, reduce the city's carbon footprint, and position Birmingham as a leader in climate change mitigation.

ECO & GBIS RETROFIT OPPORTUNITY

- 3.6 Both the Energy Company Obligation and The Great British Insulation Scheme are funded by the major energy companies (via charges on domestic energy bills) and mandated by government via licencing requirements. This form of obligation has existed since 2002 when the Energy Efficiency Commitment 1 was first introduced. It has been known under multiple names since but with the same overall objective to improve the energy efficiency of existing homes
- 3.7 ECO4 – the current phase of ECO – started in 2022 and runs until March 2026, (although there is early indication of this being extended to 2027). The next phase - ECO5 – is already in discussion within DESNZ and is anticipated to run for a further 3 years from 2026/27.

What are ECO and GBIS?

- 3.8 For the purpose of this briefing when we refer to ECO, this also encompasses GBIS. Both schemes are funded by energy companies and aim to improve the energy performance of homes across the UK. They aim to reduce fuel bills for low-income households whilst at the same time reduce carbon emissions. Therefore energy performance measures which result in high carbon emissions savings are particularly attractive. GBIS also has a more general route which is not income dependent and is intended to improve the most inefficient homes
- 3.9 An overview of the obligations, aims, eligibility criteria, and efficiency measures funded through each scheme are summarised below:

ENERGY COMPANY OBLIGATIONS (ECO)	GREAT BRITISH INSULATION SCHEME (GBIS)
<ul style="list-style-type: none"> • £1 billion funding through energy companies • Aims to reduce fuel bills for low income households • £224.3 million in notional annual bill savings • Fabric-first and multi-measure • Criteria: EPC D or Below (E for rented) • Criteria: Means tested benefits, health 	<ul style="list-style-type: none"> • £1 billion funding through energy companies • Energy suppliers must improve over 300,000 homes • Saving between £300-400 from bills • Fabric First, single-measure • Criteria: As ECO • plus general for worst homes – council tax A-D

Council Involvement to Date

- 3.10 The Council began to actively promote ECO4 in early 2023 by establishing a programme of area-based activity with E.ON and Agility ECO. Memorandums of Understanding have been agreed both organisations who take responsibility for allocating funding, creating demand and delivering retrofit works.
- 3.11 Through an area based approach, the Council is working with E.ON to build on the successful LADs retrofit programme. With a focus in small areas, our partnership aims to build demand before moving on to further areas of the city. Currently E.ON

have received over 100 applications for efficiency measures but demand is low and E.ON are finding engagement challenging.

3.12 Agility ECO are an ECO management company which receives funds from multiple energy companies and delivers retrofit works through a network of installers. On average Agility ECO are receiving 60-70 applications per month across the city.

3.13 The role of the Council has been critical but limited to date. This is largely due to ECO being an energy company/installer led programme. However, there is also limited additional capacity in BCC to increase the pace and scale of activity. The potential of the ECO opportunity is therefore not being realised.

THE OPPORTUNITY

3.14 Following conversations with our current partners, E.ON and Agility ECO as well as other potential partners and other local and national ECO installers, an opportunity has arisen to accelerate the pace and scale of ECO across Birmingham.

3.15 We have consulted with Greater Manchester Combined Authority (GMCA) who has established an ECO programme of a similar scale and have successfully procured a partnership which creates a revenue stream into the authority.

3.16 GMCA appointed a number of ECO installer partners. Each installer paid an upfront fee to become a partner. This fee is based on an estimated number of installs per property delivered through ECO Flex. The fee has provided an upfront revenue to GMCA per year to fund the project team whose main role is to verify the eligibility of households to access ECO funding, sign off declarations, and to generate leads through targeted marketing and community engagement. GMCA expect this to increase as they scale up the number of properties targeted, and with the introduction of GBIS.

3.17 Energy providers and their installers have demonstrated an appetite to work in partnership with BCC and indicate a potential to scale up the city’s ECO programme up to **3,000 homes per year**.

Partner	Current est output homes per year	Potential homes per year
EON	500	500*
Agility ECO	500	500*
ECO Installer 1	NA	700
ECO Installer 2	NA	700
ECO Installer 3	NA	600
TOTAL	1000	3000

3.18 It is likely that it will take upward of 12 months to reach these levels of delivery and we anticipate the following annual outputs:

2024/25:	1000 homes (largely from existing partners)
2025/26:	2000 homes
2026/27 (onwards):	3000 homes

3.19 Funded by the concession agreement fees, the Council will provide support to increase demand through communications, community group working and use of the Council’s existing data and data from public health, NHS, education etc. Our recent experience of delivering the LADs retrofit programme has provided the team with the knowledge and capability to work with communities, create demand and drive retrofit projects to successful outcomes.

3.20 This will also allow the Council to develop capacity within community groups across the city to help spread awareness and offer trained support to residents.

THE BENEFITS

3.21 The procurement approach recommended will help secure private investment into housing across the city and a revenue stream to the Council to support retrofit works and capability building. It also has the potential to support savings from the Housing Revenue Account (HRA) as ECO can also be used for social housing.

3.22 ECO 4 is in delivery and continues until at least March 2026. DESNZ and Ofgem are already in consultation with energy companies regarding ECO 5 which is fully expected to commence in April 2026 and will lead to a further 3 years of delivery.

3.23 A legal obligation is placed on energy companies to invest money on energy efficiency home improvements. Meaning, ECO is not a short-term government initiative in the way many other retrofit programmes are. Therefore, it is unlikely that ECO5 (or a version of this) will not go ahead. However, it is not yet guaranteed.

3.24 Due to this, the short-term benefits case for delivery through the ECO4 programme to March 2026 has been considered and demonstrates the value of commencing immediately.

3.25 The following demonstrates the likely benefits to March 2026:

Savings/Income/Investment for ECO 4 to March 2026 only		
Private investment in homes across Birmingham	£60 million	3000 homes warmer, less damp and healthier (24/25 – 1000, 25/26 – 2000)
Savings to HRA	£16 million	1000 BCC social homes retrofitted at 80% funding from ECO – saving £15m required spend from HRA. Required to comply with Asset Management Strategy EPC C 2028 target.
Fuel bill savings	£1.2 million	3000 homes saving on average £400 per year
Revenue income generated for BCC	£300,000	Concession fee of £100 per property retrofitted.

Once ECO 5 is confirmed, these benefits will extend annually for at least another 3 years from April 2026.

3.26 Revenue generated through the current arrangement (memorandum of understanding with local partners) via the introduction of a £100 declaration fee demonstrates the schemes potential. Although of a much smaller scale and not an upfront income generation, as set out within this new proposal, receipts to a value of £12,100 have been generated from

THE APPROACH

Procurement of Delivery Partners Through Concession Agreement:

3.27 Following the model established by GMCA we aim to procure up to five installer partners to deliver ECO and GBIS. This would involve procuring partners under a concession agreement which allows the Council to charge a fee for generating leads/ referrals to the concession providers. The fee would be based on the number of retrofit projects that each installer commits to delivering. This fee would be used to fund team costs as well as delivering a communications strategy and supporting local community groups to build demand.

3.28 It is anticipated that an area approach will be taken with each partner being responsible for a section of the city.

3.29 The procurement strategy can be found in Appendix 3.

ROLE OF BIRMINGHAM CITY COUNCIL

3.30 Whilst ECO is an energy company and ECO installer-led programme, the most successful ECO projects nationally are those where the Local Authority has taken a steering role. British Gas and installers from their supply chain have expressed real interest in being involved in ECO in Birmingham on the basis that the Council takes a strategic role to co-ordinate and help drive demand. The work we completed on LADs demonstrated the critical role that the Council can play when working closely with local community groups. The energy companies and installers are unable to build trust with homeowners to the level that BCC working in partnership with community groups is able to.

3.31 Therefore, it is critical that the Council becomes responsible for managing and driving the programme. This will be done in the following areas:

3.32 *Scaling up Delivery:* It will be necessary for the Council to co-ordinate delivery by our partners to:

- agree strategic approach and short term plans.
- ensure they are delivering to the expected standards and numbers.
- ensure that their customer support processes are in place.
- approve ECO-Flex declarations – an OFGEM requirement to ensure personal eligibility criteria is being met.
- Engage and empower local community representatives to support or lead engagement.

3.33 *Scaling up Demand:* Currently the largest challenge is the low level of demand for retrofit across the city despite the significant need. The key role of the Council will therefore be to help build demand and trust.

3.34 There are three routes to doing this:

1. *Communications:* ongoing, consistent communications across the city to build awareness. Supported by local, focused communications in the areas where our partners are delivering ECO. These comms need to be led by the Council in partnership with local community groups to ensure consistency and to build trust.
2. *Data driven eligibility:* The ECO programme includes eligibility routes for people in poor health, on benefits and receiving free school meals amongst other criteria. In some cases, the Council or our partners (NHS etc) has access to data which can help reach individuals who meet these criteria. In other instances, data is available which will support area-based targeting e.g. indices of multiple deprivation, Parity Projects data.
3. *Community:* As proven in the recent successful delivery of the LADs programme, the greatest way to reach more people is through community networks. We aim to appoint (and pay) local community groups to promote the project and provide support to the people within their communities.

3.35 Scale Up Support: Retrofit and especially the ECO programme can be confusing. It is hard to find good advice and many people do not apply because they lack the

knowledge or confidence to make an informed decision. For the Council to drive the ECO programme, we must provide the advice and support along the customer journey.

- 3.36 Whilst the Council will take responsibility for driving and facilitating this programme, the delivery partners will remain responsible for its delivery. They will bring funding from energy companies who they partner with, will carry out marketing and attract their own leads and then deliver retrofit measures. No responsibility for work quality will sit with the Council and the Council will have no financial commitment or risk. All funding flows from the energy companies to the delivery partner directly.

Role of the team

- 3.37 The current team working on ECO4 sees members from Housing Strategy and Route to Net Zero. The team is also working very closely with the City Housing Asset Management team to co-ordinate a joint approach to ensuring value is also captured for The Council's social housing stock.
- 3.38 The following table shows the current team as well as the proposed team to support the scaling up of ECO. This is the requirement up to March 2026.:

Concession Revenue Allocation

- 3.39 Revenue will be ring-fenced and used to support (in priority order):

1. Retrofit team across Strategic Housing and Route to Net Zero
2. Retrofit Communications and awareness raising – digital and physical marketing.
3. Supporting local community groups to develop awareness and trust and to support residents.
4. Provision of retrofit support and advice to residents considering or undergoing retrofit.
5. Adoption and pilot of systems required to deliver retrofit at scale.

4 Options considered and Recommended Proposal

- 4.1 The following options have been considered in developing this proposal:
- 4.2 Do Nothing: The ECO/GBIS programme is the responsibility of energy companies and does not require input from Local Authorities. However, the scale of implementation is limited with this approach. By taking a strategic approach, Birmingham can lead the approach and provide residents with a more trusted option for having their homes improved.
- 4.3 Continue “light-touch” approach: The work we have done to date with EON and Agility ECO has not delivered the numbers of installations promised. We have learnt significant lessons from this which have led to the proposal to work directly with larger installers. To date this has not delivered a revenue stream to support our work.

- 4.4 Proposed Delivery Partner Approach: The risk to the council is low and provides a significant revenue stream to help develop demand and support our residents better. It allows trust to be built and capacity to be developed with in the city whilst maximising outcomes for our residents. This is the recommended option.

5 Consultation

The proposals have been developed in consultation with:

- 5.1 Greater Manchester Combined Authority who delivered a similar procurement process and are now working with three delivery partners.
- 5.2 E.ON and Agility ECO as well as other potential partners and other local and national ECO installers
- 5.3 Corporate Procurement – see the procurement strategy which sets out the procurement approach in support of these proposals at Appendix 3.
- 5.4 Housing DMT
- 5.5 Cabinet Member for Housing
- 5.6 Cabinet Member for Environment.
- 5.7 Places, Prosperity and Sustainability Strategic Director
- 5.8 Route to Net Zero Assistant Director; and
- 5.9 Cabinet Member for Environment.

6 Risk Management

- 6.1 Risk associated with this proposal include low levels of demand for retrofit across the city, despite the significant need, and limited additional capacity in the council to increase the pace and scale of activity.
- 6.2 Reputational Risk: The Council will be promoting this programme and could be criticised for any poor installations. This is being managed through procurement of quality delivery partners who will be monitored closely by a dedicated Housing Modernisation and Strategy Manager. Responsibility for delivery quality will sit with the delivery partner and issue resolution timescales will be included within the agreement.
- 6.3 Reputational Risk: The ECO and GBIS programmes have strict eligibility and value for Money criteria which in many cases lead to homes and households not being suitable under this programme. This is often difficult for residents to accept. It is important the Council and our partners develop communication material to manage expectations and provide support even when a property is rejected.
- 6.4 Financial risk: the financial risk is minimal as there is no direct cost to the council and a revenue stream will be established to support resources. The

revenue is paid to the Council upfront based on targets. It is non-returnable so entirely at the risk of the Delivery Partner.

7 Compliance Issues:

- 7.1 The proposals within this report align with the Birmingham Joint Health and Wellbeing Strategy 2022-2030 under its theme living, working and learning well which recognises and seeks to address the impact poor, inefficient and cold housing can have on residents.
- 7.2 The proposals within this report align with the Housing Strategy 2023-2028 under priority three: Neighbourhoods are Enhanced and the Quality of Existing Housing is Improved which seeks to ensure that we secure investment to retrofit 30% of council homes by 2028.
- 7.3 The proposals within this report align with the Asset Management Strategy 2024-2029 which seeks to secure investment to retrofit homes cross tenure in order to improve the sustainability and quality of existing homes.
- 7.4 The proposals align with the Improvement and Recovery Plans aim to develop a financially sustainable council as ECO and GBIS will be self-financing and increase revenue into the City Housing Directorate.
- 7.5 The proposals align with the Council's Corporate Plan 2022-2026 strategic aim of Creating A Bold Green Birmingham. In particular ambitions to improve air quality and continue on the route to net zero.

8 Legal Implications

- 8.1 Section 1 Localism Act 2010 confers a general power of competence on the Council which permits the grant funding proposed in this report. As this is a project which looks to agree to concessions agreement, it will develop a financially sustainable council as ECO and there is the self-financing aspect of GBIS, leading to increase revenue for the Council.

9 Financial Implications

- 9.1 There should be no cost to the council's base budget, as concession funding will be paid to us from suppliers to spend on publicity, coordination and engagement. This amount will be set in advance, so ensures affordability of the resources committed to. This figure is estimated at £300,000 per annum, scaling up in the first year, but the final figure will be formally agreed in the contracts.
- 9.2 The cost of work carried out is then funded by large energy company grants as mandated by central government..

- 9.3 Where demand for the scheme is lower than anticipated by the suppliers in setting their concession, this will fall on the suppliers. It is considered there is no further financial risk to the Council as the team and their activities will be carefully managed and funded through the upfront concession fees. Budgets will be reviewed annually.

10 Procurement Implications (if required)

- 10.1 The delivery partners will be procured under a single stage process to secure an approved list of installers in accordance with the Concession Contract Regulations 2016.
- 10.2 As a concession arrangement, the value of the procurement is determined via the total turnover of the concessionaire(s) generated over the duration of the contract, net of value added tax, in consideration for the works and services which are the object of the concession contract and for the supplies incidental to such works and services. We have estimated the contract value as £265m.

11 Human Resources Implications (if required)

- 11.1 There are no HR implications in the delivery of this project.

12 Public Sector Equality Duty

- 12.1 An Equalities Impact Assessment screening has been completed (Appendix 1) which identifies positive impacts for groups with protected characteristics, as well as vulnerable communities that are likely to be affected by cold, damp and draughty homes, and fuel poverty. The assessment has also identified actions to consider as part of the Delivery Plan formulation process, particularly in relation to targeted physical and digital marketing, the production of IAG, and identifying appropriate community organisation to promote both schemes.
- 12.2 The EIA will be kept under review and updated annually to capture and reflect any changes in approach as we begin to upscale and accelerate ECO and GBIS across Birmingham.

13 Appendices

- Appendix 1: Equalities Impact Assessment EIA000423
- Appendix 2: Environmental Impact Assessment: Upscale of the ECO4 & GBIS scheme
- Appendix 3: Procurement Strategy