CLASP

CLIMATE CHANGE LOCAL AREA SUPPORT PROGRAMME

NI 186 Briefings | April 2009

No.9 Greatest Hits for Revolving Loan Funds

Brief Description:
Many Local Strategic Partnerships / Local Authorities reduce CO_2 emissions per capita in the Domestic and Industry/Commercial sectors by establishing and promoting Revolving Loan Funds. In **Briefing No.1** and **Briefing No.2** Greatest Hits for Unitary and District LSPs we strongly recommend establishing revolving loan funds to enable the installation of energy efficiency measures to reduce local authority estate emissions (NI 185) and other public sector organisations (NI 186).

A revolving loan fund (also sometimes known as an invest to save fund) is ring-fenced to provide loans for projects which then repay back into the fund so further loans can be made. This way the money goes a lot further as it recycled again and again. It is good value for money and once set up goes on and on making CO_2 and financial savings. Once established it's safe from budget cuts – although it does need a person to administer it. There are two types of funds:

Internal: to provide funding for capital expenditure for energy efficiency improvements or renewable energy generation on public sector estate buildings. This enables recommendations resulting from energy audits or Carbon Management Programmes to be put in place. These schemes may be funded from Capital expenditure, Prudential Borrowings or budget remaining over from energy efficiency projects. They can also benefit from conditional loans from Salix Finance (a loan that does not need to be paid back, enabling revolving loan fund savings to be reinvested in other projects related to energy saving).

External - Domestic: to provide low interest or interest free loans to householders and landlords for energy efficiency, decent homes improvements or renewable energy generation. These schemes may be started with funding from capital funds, charities or money saved through other energy efficiency schemes. These schemes can expand your work on CO_2 savings in the domestic sector.

Other benefits include:
- cost savings
- increased energy security
- reduction of fuel poverty in homes and related health and wellbeing improvements
- demonstrating leadership
- enabling improvements to energy efficiency in the able-to-pay sector which may not be picked up by other targeted insulation schemes.

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Category:
The actions proposed below impact the Industry/Commercial category (public sector) and Domestic categories of Defra's categories for CO_2 emissions.

Partners:
- Finance and Legal Departments
- Communications team
- Local Authority Housing Team – energy officer(s)
- Housing Associations
- Credit Unions
- Contract service companies or outsourced buildings management organisations

Policy links
- Energy efficiency helps reduce **fuel poverty**
- Decent Homes
- Empowering people to work together on climate change and energy issues leads to **stronger and safer communities**
- **National** Government target of 80% reduction in CO_2 emissions by 2050
- **Regional** ambition of 30% reduction in CO_2 by 2020
- **Local** Government NI 186 target of between 9 – 12.5% by 2011
- **Local** Government NI 185 target for internal CO_2 emissions
- **Policies under development:** Community Energy Support Programme, Heat Strategy, Renewable Energy Strategy

Internal: Revolving Loan Funds for Public Sector Estate Improvement

Action on reducing CO_2 emissions in public sector estate falls into the Industry/Commercial category in Defra's emissions categories.

Key steps to getting started as a Partnership

Public sector partners in the LSP with plans for energy efficiency or renewable energy investment resulting from Carbon Management Programmes/Carbon Trust Audits or other plans are strongly advised to establish revolving loan funds or invest to save funds.

1. Set up fund
In order to make the necessary investments and re-invest savings into future projects, funding into an initial pot or fund is needed. This can be done by earmarking funding for the revolving loan through annual budgets, capital programme funding, prudential borrowing or surplus funds from other energy efficiency or other projects. The fund is usually managed by an Energy Manager who will help identify projects which would benefit from loans. You'll need support from Finance and Legal departments.

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The purpose of the fund is generally to provide loans to fund energy efficiency, water saving (in some cases) and renewable energy generation in local authority or public sector organisation estates. This could include sports centres, schools, hospitals etc.

The criteria for loans made from the fund should be agreed. This usually relates to the expected payback period (these generally differ for energy efficiency and renewable energy generation installations) and you may wish to be flexible, so that longer payback periods are possible once the easier projects have been delivered. You may wish to include the amount of CO_2 or water saved annually, or at least report this.

2. Identify possible projects

This can be done through carbon or energy audits, using energy monitoring software to measure energy use or a call out for suggestions. Surveys for potential renewable projects can be conducted across the organisation's estate. Schools and arms length owned buildings (e.g. outsourced sports facilities) can be more complex as the agreement is needed from those managing these premises. Reports should list the potential for energy efficiency measures, costs of the measures, expected financial and carbon savings and suggest next steps to implement. Speaking to another local authority energy manager who has implemented a range of projects will be helpful in identifying projects and measures that produce good savings.

Projects that might be funded could include:

- Remote energy monitoring and management systems
- Boiler controls and replacement
- Heating – controls, distribution improvements, electric to gas, pipework insulation
- Hot water – point of use heaters
- Insulation - building fabric such as cavity wall & loft
- Motor controls – fixed & variable speed
- Office equipment improvements
- Radiator reflective foils
- Swimming pool covers
- Renewable energy installations such as solar PV, solar hot water, wind turbines
- CHP and district heating
- Fleet replacement or car club membership for pool cars
- Water saving measures such as recycling of vehicle washing water
- Rainwater capture systems / grey water systems

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3. Implement projects

This is a key step – getting from the audit report to implementation. More than technical skills are needed at this stage, since the managers on the particular site such as a school, or particular building need convincing that the project is worthwhile and will save money, save energy and increase comfort levels. Project management skills, technical skills and communication skills are needed.

4. Promote success

Prakash Patel at Leicester City Council, which runs this type of scheme, suggests that promoting successes is a useful way to bring suggestions for projects to the Energy Team, making the identification of projects much easier.

Case Study - Knowsley Council Energy Recycling Fund

Energy Conservation Manager Barry McKean set up Knowsley's Energy Recycling Fund of £200,000 10 years ago when he started in post. Since then it has provided interest free loans for over 100 projects to install heating, lighting and water controls and other projects in the borough's buildings, including schools and leisure centres.

Barry spends around 2% of his time running the scheme. He identifies projects with a maximum 5 year payback (usually it's around 3 years payback) he visits head teachers and centre managers to talk them through the possible project and its benefits. If they commit, they sign an agreement to repay the cost of the project which might be £5,000 and the money is deducted from their budget over the agreed timeframe on an annual basis. E.g. £5,000 to install lighting controls, repaid over 5 years would result in an annual repayment of £1,000. This financial instrument allows the building operator to benefit from an immediate reduction of consumptions, CO_2 emissions and costs, and usually the annual amount to be repaid is less than the annual financial benefit gained.

"The scheme makes a difference because sites would not have had funds to invest so they are happy to have a loan provided interest-free."

For further information Barry can be contacted on: **barry.mckean@knowsley.gov.uk** or **0151 443 2287**

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Case Study - Stockport Metropolitan Borough Council

Stockport MBC obtained £150,000 over three years through Salix Finance to support its energy programme, delivered by NPS Stockport Ltd. Examples of implemented projects have included work on Cheadle Baths, boiler and lighting replacement, heating controls and roof insulation. One project in a primary school invested £6,000 in roof insulation and heating controls which saved £1,200 in the first year (after weather correction) and led to greater comfort and efficiency.

"Salix funding has helped us to increase the value of our energy management programme and has delivered benefits through implemented schemes. However, there are strict criteria for eligible schemes and reporting arrangements are quite demanding for the value of the programme."

Darren Pegram, Stockport MBC

Case Study

Leicester City Council established an invest to save scheme running alongside intelligent metering systems that allowed their energy managers to target areas with potential for high financial savings under five years payback. Annual savings of £40,000 were then passed back to departments or into cost savings/improved service delivery.

Once Salix Finance was launched, Leicester City Council took advantage of this matched funding to increase the size and impact of projects. They admit that identifying projects that meet the criteria can be challenging in terms of technical skills required in the team.

Contact - Prakash Patel - **prakash.patel@leicester.gov.uk**

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Fact Box - Salix Finance

Some partners may benefit from **Salix Finance**. Salix is a conditional grant which means that if you make the savings you will not be required to repay the grant/loan and you will then have additional money from savings to invest in other projects.

Salix provides 50% of the funds needed. The minimum fund size is £100,000 (£50k from Salix, £50k from the participating organisation). For smaller authorities whose energy efficiency/renewables projects are too small, partnerships can be made with County Councils (Cumbria County Council is signing up for Salix Finance starting in July 09). For PCTs (whose rules do not allow taking on additional funding) Salix can be accessed through partnership with the NHS Foundation Trust or possibly the local authority (where an internal project document with its own terms and conditions can be used).

Salix Finance would welcome applications from the public sector partners of an LSP (this would be a first!) where one organisation would be the lead partner.

To ensure that the fund is used for projects that deliver long term energy and CO_2 savings projects must comply with the very specific criteria.

Salix Finance is not available for domestic or transport sectors, but for Local Authorities, NHS Foundation Trusts and Higher Education.

www.salixfinance.co.uk

Salix Finance Users in the Northwest:

- Sefton Metropolitan Borough Council
- Stockport Metropolitan Borough Council
- Warrington Borough Council (are in the process of applying)
- Blackburn with Darwen (are considering an application)
- Cumbria County Council (applied in early 2009)

- Merseyside Fire & Civil Defence
- Manchester University
- Manchester Metropolitan University

- University of Central Lancashire
- University of Cumbria (applied in early 2009)

Salix Finance appears to be under-accessed by Northwest local authorities. Reported barriers include red tape, paperwork and the pressure to spend and locate projects that meet the criteria.

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External - Domestic: Housing Energy Efficiency / Renewables Loan Revolving Funds / Private Sector Loan Scheme

Actions detailed here reduce CO_2 emissions in the Domestic category of Defra's emissions categories.

Local authorities or a partnership of organisations can set up loan schemes for householders, landlords or residents to improve take up of sustainable energy measures. These schemes have advantages in that they can improve residents' quality of life, health and financial wellbeing and remove people from fuel poverty. For middle to upper income households they enable investment in expensive measures such as double glazing or renewable energy generation[1].

Case Study: Fylde Coast Energy Credit Union (Green Loans)

Blackpool, Fylde and Wyre Councils have set up a joint credit union, hosted by Blackpool Council. With seed funding from Foundation, the new Climate Fund for the Northwest, the credit union will be providing very low cost loans to residents to pay for energy efficiency improvements, allowing them to spread the cost into affordable amounts with help from the savings made in their energy bills.

Many local residents do not qualify for national grant schemes and are not able or willing to pay for energy efficiency measures – this is taking its toll in health terms with excess winter mortality rates in Wyre being the highest in Lancashire. The scheme, due to launch in May 2009, will initially be available to 15,000 employees of organisations who are members of the credit union and will be rolled out to other recipients after the first phase. It will include loft and cavity wall insulation, boiler and heating control replacement, as well as help for hard to treat homes including solid walls.

Fact Box

What's the minimum useful size for a loan fund? Effective funds have been set up with £50,000. A fund of £90,000 would provide 27 loans for central heating immediately (based on cost of £3,300 per house). Repayments each month + interest on fund balance on these could provide funding for two or three more loans thereafter.

Example – Leicester Loan

Installation total cost		£3,300.00
Client's contribution on completion		£300.00
90% loan	=	£3,000.00
Pay back over five years	=	£50.00 per month

Interest free loan schemes slowly lose money over time, because there's usually a 5% fee on the credit check, but it's small, only around £150 – so there is a very gradual rate of attrition on the capital. In the past, when bank interest rates were high, interest on the fund (if it was a slow month) would replace this attrition. Additional funding can be found to add to the pot if necessary.

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Checklist for setting up revolving loan schemes for domestic energy efficiency improvements or renewable energy generation

1. Find out what's happening already and understand the potential for CO_2 savings

Speak to your housing team and local insulation and boiler installers to get evidence of the demand for this type of scheme, e.g.:

- numbers of homes that have received cavity wall and loft insulation and the numbers remaining
- numbers of hard to treat homes you have in the local area – these are homes with solid walls, terraces or off mains gas supply
- numbers of homes that would benefit from boiler replacement or heating controls
- numbers of people in fuel poverty who do not qualify for national grant schemes
- numbers of able-to-pay but not in fuel poverty
- potential to expand or extend CERT schemes through work with local installers and community groups
- what plans exist for CESP (Community Energy Saving Programme) targeting households on low incomes
- amount of micro-generation or locally generated energy (solar hot water, pv, wind turbines or biomass boilers) NB this is only worth starting on once the bulk of homes have been well insulated and have efficient boilers.

This should provide you with a picture of where CO_2 emissions/energy efficiency is being tackled currently and where potential exists to extend schemes to achieve the scale needed for your NI186 targets. Depending on your housing team's priorities, some of the groups above may not be included in existing schemes to improve energy efficiency and heat in homes in the area.

2. Assess the potential for a loan scheme to assist in tackling some of the above groups. Identify a range of policy drivers – CO_2 savings, health, quality of life, financial inclusion, uptake of measures by middle to upper income groups etc. which will help identify potential funding sources.

As shown above, low interest or interest-free loans can be useful in giving the able-to-pay groups the impetus to make changes in their homes, but can also be very effective in tackling fuel poverty in low income groups. A range of loan schemes with different aims and target groups should be considered[2].

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Case Study – Leicester City Council

Leicester City Council provides a range of loans/grants to tackle the range of private and social housing, energy efficiency and renewable energy areas[3]:

- Leicester Loan – pot of £45,000 – loaning up to (90% max) £3,000 for central heating systems over a five year period (pay back initially £600 then £56 a month)
- Energy Vision Leicestershire – pot of £90,000 – loaning up to (75% max) £3,000 for central heating systems over two years
- Leicester Solar Fund – mix of grant loan scheme with EST and local solar hot water/PV supplier – pot of £40,000
- Hot Lofts (Leicester City Council, British Gas and Mark Insulation) – free loft and cavity wall insulation – thermal imaging was used to target 'worst first' (match funding).

Case Study - Kirklees Council

Kirklees Council have complemented their Warmzone insulation for all households with a new Recharge scheme, borrowing against property and payback on house sale – to fund renewable energy schemes for home owners.

Fact Box - Green Concierge Service or Personal Energy Saving Service

The take up of loans for home efficiency can be supported by Green Concierge Services. These are aimed at middle to upper income households who pay for a personalised service to assess energy efficiency of a house and the potential to save energy and install renewable energy generation. In London the service includes a personal home check, report and year's guidance on getting grants, the best suppliers, quotes etc.

Other types of personalised service have been developed by the Marches Energy Agency[4] in Shropshire, working with communities, community groups and individual households and businesses.

3. Identify funding and partners, and make a convincing business case

a) Identify funding (depending on the purpose of the loans) such as:

- Capital funding from the Local Authority
- Home improvement grants
- Private sector renewal funding
- Ad hoc unallocated funds
- Fuel Utility
- Regional Housing Board
- PCT public health funding
- Charitable funding or regional schemes such as Foundation – the Northwest Climate Fund
- External EU or UK sustainable energy funding.

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b) Find the partners:

- Who can put in time and expertise to set up and run the scheme?
- Can an existing service provider (such as a Credit Union, Home Improvement Agency or other body) take on the administration of the scheme or is it better administrated in-house?
- Is it helpful to work with a neighbouring authority/authorities?
- Who has done this before to learn lessons from or can you find a consultant to assist in project planning and set up?
- Involve your legal team and Trading Standards Office.
- Which installers or Home Improvement Agencies can be involved? These need to be reliable and competitively priced, you may wish to include local installers or ones that provide services appropriate to the type of housing in the area. How many jobs may be produced as a result?
- What other partners can be involved to provide a 'whole house' service e.g. energy efficiency review of home, fire safety checks, personalised travel planning service (if one exists), benefit/debt advice, free energy saving light bulbs, access to other energy efficiency measures such as subsidised loft or cavity wall insulation.
- Is there a role for a Green Concierge Service to advise on and provide project management support for sustainable living, rather than just energy efficiency?

4. Setting up the project administration and procedures[5]

a) Financial and administrative considerations:

- Specify what can be funded
- Work out whether your scheme is affected by the 1974 Consumer Credit Act (involve legal and Trading Standards Office at this stage) (this depends on funding, amount lent and repayment schedule)
- Decide on the type of loan on offer (secured/unsecured; interest free/low interest)
- The types of loans and organisations administering them affect the type of credit checks undertaken
- Involve a Credit Union if appropriate to target group and loan type
- Consider financial criteria – use of loan, non-payment, length of repayment, early repayment
- Consider debt recovery and provision for bad debt (although default levels in existing scheme are encouragingly low)
- Establish monitoring arrangements (checks on work carried out by installers as payment is made to the installer once the work is carried out satisfactorily).

b) Marketing & Information – Develop:

- Ways to promote the scheme to the target audience (possibly working through partners or linked to other schemes)
- Information packs for participants, including forms relating to Consumer Credit Act.
- Provision of advice services
- Links to other grant schemes

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This requires technical knowledge as there are legal and financial issues to be tackled. There is not an 'off the shelf' format for revolving loan funds, but a set of slides about setting up Home Energy Loans is available on the CLASP website[6] – from Peter Lowe and Home Improvement Agency, Manchester Care and Repair. These slides detail the regulation and compliance issues, setting up agreements, delivering loans and collecting payments. The EST briefing note "Setting up a private sector loan scheme" is an excellent guide to the process (see reference below).

Case Study - Manchester City Council - Manchester's Home Energy Loan Plan

This scheme was started with £175k from HECA Action Funding and Manchester's capital programme and is administered in partnership with Manchester Care and Repair. It provides interest free loans for homeowners and landlords to a maximum of £5,000 or up to £7,000 with a case conference. So far, 412 loans have been made funding 437 measures to a value of £976,600.

The Northwest Greatest Hits for NI 186 series includes the following briefings:

1 No.1 Greatest Hits for Unitary LSPs

2 No.2 Greatest Hits for District LSPs

3 No.3 Your Top 10 is my Top 10 – Explaining how climate change targets meet other targets

4 No.4 Quantifying the Savings

5 No. 5 Greatest Hits for Low Carbon Economic Development

6 No.6 Greatest Hits for Engaging with Business

7 No.7 Greatest Hits in Planning

8 No. 8 Greatest Hits for Local Transport Plans

9 No. 9 Greatest Hits for Revolving Loan Funds

10 No.10 The Whole NI 186 Picture

Researched and written by Quantum Strategy & Technology for CLASP

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References

1. CLASP website - contains resources and publications including training event on revolving loans. **http://www.climatechangenorthwest.co.uk/running-and-resourcing-an-energy-efficiency-loan-scheme.html**

2. North West Carbon Action Network **www.carbonactionnetwork.org.uk**
Energy Efficiency Partnership for Homes **www.eeph.org.uk**

3. Information on energy efficiency in homes in Leicester City Council – working on small staffing for big outputs. As a Beacon, Geoff Hutchins, Hot Lofts Coordinator welcomes visits and can spend half a day with you tel: 0116 2211183 / **geoff.hutchins@leicester.gov.uk**
www.leicester.gov.uk

4. Marches Energy Agency **www.mea.org.uk**

5. The Energy Saving Trust's Briefing Note – Setting up a private sector loan scheme (November 2006) offers a comprehensive guide to establishing these schemes, complete with case studies (it is readable and only six pages long) available at:
www.energysavingtrust.org.uk/Publication-Download/?p=2&pid=460

6. **http://www.climatechangenorthwest.co.uk/running-and-resourcing-an-energy-efficiency-loan-scheme.html**

CLASP – The Northwest Climate Change Local Area Support Programme
www.clasp-nw.info