DECISION-MAKER:	CABINET
SUBJECT:	STRATEGIC CITY WIDE APPROACH TO ENERGY
DATE OF DECISION:	18 DECEMBER 2012
REPORT OF:	LEADER OF THE COUNCIL
STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	

BRIEF SUMMARY

This report seeks Cabinet approval for a strategic, city-wide approach to the delivery of low Carbon energy. This would involve drawing up an energy programme for the delivery of suitable schemes across Southampton, to reduce energy costs, improve energy security, and support the strategic objectives of the Council both as a large organisation in the City and as a community leader.

There are opportunities to work in partnership with other local authorities, the wider public sector, other organisations, and the private sector, in the Solent region, and nationally, through collaborative working, sharing best practice, and in turn generating economies of scale.

A strategic approach to energy would also make a substantial contribution towards a sustainable low carbon economy in the City, and in the wider Solent region and further enhance the Council's National reputation in energy and sustainability.

RECOMMENDATIONS:

(i) To approve the development of a strategic action plan for the delivery of low carbon and renewable energy for the Council, the City of Southampton and the Solent region.

REASONS FOR REPORT RECOMMENDATIONS

1. A strategic cross council, city-wide and inter authority approach to energy is required to maximise available opportunities and impacts in the City and in the Solent region.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The alternative of energy and energy efficiency schemes delivered within individual divisions across the council, and in some cases solely within Southampton, could miss the benefits and impacts that would accrue through a more strategic joined up approach to delivery.

DETAIL (Including consultation carried out)

BACKGROUND:

3. The UK is now a net importer of energy and is experiencing the impact of significant fluctuations in global energy markets and political uncertainties. The National energy generation and transmission infrastructure also requires significant investment. These factors combined are leading to energy price uncertainty and significant rises in the costs of energy for domestic and commercial consumers.

4. The Department for Energy and Climate Change (DECC) currently estimates that energy prices are likely to rise by 4% per annum over market fluctuations to 2020. Although past energy prices cannot be used to forecast the future, energy costs for UK householders have doubled since 2006

5. It is estimated that the entire City of Southampton spends approximately £150 million per annum on electricity and gas, which produces an estimated 900 thousand tonnes of Carbon dioxide emissions.

6. Energy supply market volatility over the past 10 years represents a key risk to the Council's annual corporate expenditure. Based on the annual non market rise the Council's total corporate (non housing) energy spend could rise from £5 million in 2011/12 to £6.6 million by 2020. In 2011/12 the Council spent over £2.9 million on energy for its own operational buildings and streetlighting (excluding leisure sites) and £2.1 million in schools. The Council's annual Carbon Reduction Commitment (CRC) tax bill in 2011 was £209,000.

7. As a community leader the Council has a role to play in addressing the risks of rising energy costs, reduced energy security, and the cost of Carbon, for its citizens and businesses in the City. There is an opportunity for the Council to lead the development of a strategic low Carbon energy programme for the City. The Council's role would be one of delivering suitable low carbon energy schemes, and to encourage and support appropriate commercial investments.

8. New guidance under the Home Energy Conservation Act (HECA) requires local authorities to publish a report on their plans to achieve improved energy efficiency in all housing tenures, by 31 March 2013. Councils are required to identify practicable and cost-effective measures likely to result in significant energy reduction in all homes in their area and to consider the role key local partners, such as social housing providers and community organisations, can play in supporting their plans.

9. The Government expects councils to make the best use of the financial incentive schemes such as the Renewable Heat Incentive (RHI) and the Energy Company Obligation (ECO), which replaces the previous CESP and CERT utility funding in January, and to develop suitable projects under the Green Deal. Local energy generation also plays an important part in meeting HECA requirements.

10. Southampton has well developed energy and sustainability policies. The Council's Energy Vision 2007 sets out objectives to supply a high proportion of the heat and energy requirements locally using low carbon technology through an interconnected city wide heat supply network. The Carbon Reduction Policy & Action Plan 2009 aims for a 40% CO2 reduction by 2020.

11. The Low Carbon City Strategy (LCCS) 2010 has overall targets and a delivery plan to achieve its key objectives. A report to be presented to Cabinet in January will provide an update on progress in achieving the objectives of the LCCS and for proposed revisions to reflect a strategic approach to energy.

12. The Department of Energy & Climate Change (DECC) aims to provide future incentives and changes to legislation to help achieve the Government's objective to provide low carbon heat via energy networks in suitable urban areas. DECC have been clear that Local Authorities have a key role to play in the development of local low carbon energy networks that will enable the UK to meet the legally binding CO_2 reduction target of 80% by 2050.

13. There are significant opportunities to achieve energy cost reductions from the Council's building stock and to support similar achievements in the City's commercial sector. This can be realised through the generation of low Carbon electricity and/or heat on a district or community level as an energy supplier, by making use of existing energy sources such as heat from industrial or waste processes, or through the delivery of energy efficiency retrofitting programmes.

14. Local energy generation and improvements in energy efficiency can also drive economic growth and jobs. Rising energy costs and energy insecurity are having a marked effect on business investment decisions. Money saved through reduced fuel bills is also likely to be reinvested into the local economy. A strategic approach to energy could provide additional future revenue streams and also become a mechanism through which the Council attracts new businesses to the City.

15. Providing cheaper energy and improved energy efficiency would also work to overcome fuel poverty particularly in those areas of the City occupied by the most vulnerable. For example, the Council procured £5 million worth of energy for heating for its tenants in Council owned flats, in 2011/12. Current economic conditions combined with energy price rises mean that many home owners and private or social landlord tenants are finding it more and more difficult to meet the cost of heating and lighting their homes.

16. National policy on energy including the Energy Act 2012 has focussed on energy market reform, promoting the use of renewable sources and improving the efficiency of the building stock. The Government recognises the importance of this agenda and have placed obligations on energy providers to support initiatives such as feed-in tariffs and home insulation. Adopting a strategic approach to energy will maximise any benefits available through Government incentive schemes.

17. The Council's national reputation as a leader in energy and sustainability would be further enhanced through the adoption of a strategic city wide approach to energy and through taking a lead on cross authority collaborative working.

18. In summary the benefits to Southampton in the council developing a strategic approach to energy are as follows:
    - Ensure more secure energy supplies for the City;
    - Enable energy cost stabilisation or cost reductions for consumers;
    - Achieve significant reductions in Carbon emissions;
    - Help to tackle fuel poverty in areas of most need;
    - Provide a boost to economic activity and jobs, and increase the level of investment into the City, and support the growth of a Green Economy;
    - Improve the energy performance of LA owned / operated buildings including reductions in Carbon Reduction Commitment (CRC) costs;
    - Exploit the potential for a long term and sustainable revenue income for the council;
    - Support collaborative partnerships for delivering energy projects, and
    - Maintain the national reputation of Southampton as a leader in energy and sustainability.

A Citywide Approach

19. A strategic approach to energy can achieve greater economies of scale, adding value to individual schemes and for Southampton as a whole. Investment on a large scale in the City would reduce the reliance on third party energy sources and help support a more sustainable pattern of energy use over time.

20. It would be the intention to ensure that this investment programme is funded as far as possible by private sector partners, applying Government incentives and programmes to stimulate that investment where appropriate. Renewable energy provision and district energy have the potential to generate significant medium and long term profits. The Council may also wish to consider investment in suitable projects, where justified by the detailed business cases. There are examples in the UK and in Europe where local authorities have developed energy services companies (ESCos) to provide energy and heat to council owned and commercial buildings in their municipal areas.

21. Taking this approach proposes that the Council has a role in delivering energy projects and managing and influencing energy in a way which is not limited to its own built estate. The Council is in an excellent position to influence investment in low carbon energy, as a unitary authority with access to schools, corporate buildings, care homes and other buildings in the City. The retained housing stock of over 19,000 properties has 11,000 flats including 23 high and medium rise blocks and a large network of over 800 small low rise blocks.

22. A programme of investment would build on existing improvement plans and estate regeneration plans for Council owned buildings throughout the City. This investment would also enable planned delivery within specific areas and strengthen the case for connecting new or existing energy schemes to new developments and non-council owned buildings. This approach requires detailed investigations into financially viable options to deliver a programme of investment.

23. A strategic energy programme would initially focus on the following:
    - The feasibility of district energy (DE) schemes in suitable City locations.
    - Identifying suitable renewable and low carbon technologies, including supporting smart energy technology solutions.
    - Ensuring regeneration areas are supported by and include provision for low carbon energy.
    - Ensuring mechanisms are in place to maximise the financial and other benefits of retrofitting energy efficiency in the public and private sector building stock.
    - Assess the potential for collective purchasing of energy on behalf of residential and commercial consumers.
    - Assess mechanisms to support private sector and community low carbon energy projects.
    - Development of joint local authority collaboration, to take advantage of efficiencies, and the sharing of best practice.

24. Key to the development of a longer term programme will be the preparation of a pipeline of suitable delivery projects. Whilst recognising that economic returns and direct savings might be low for some of these projects, the economic, environmental and social benefits to the City will be other key drivers for consideration.

Partnership Working

25. This agenda has attracted the interest of a number of other local authorities who are keen to maximise the value from energy and energy efficiency projects through sharing best practice and scarce staff resources. Discussions are taking place to support this agenda nationally and in the Solent region as well as with the Solent LEP and other private and third sector organisations.

26. Work is being progressed with the Local Government Association and a group of local authorities to determine the benefits of collective funding routes with a group of interested councils, to create the required scale for financing major energy infrastructure programmes. Other funding to be explored could include a range of Government and European sources and local government pension funds.

27. Investing in a number of energy schemes in the city ensures sufficient economies of scale are created for investment and reductions in overall programme costs. A strategic approach would also attract other complementary funding opportunities. This includes heating and insulation using the new Energy Companies Obligation (ECO). It could also include economic development and estates renewal funding, where justified by individual business cases.

28. The Council is looking to facilitate a partnership approach to maximising ECO investment. This funding will encourage the development of the local economy by investing in local supply chains, job market and skills training, and provide the maximum level of funding whilst giving the potential for a return for the City from wider business opportunities. Initial penetration utilising the Council's housing stock will act as a platform for a wider cross tenure approach. A procured strategic partner will also be expected to support the development of other energy and energy efficiency schemes in the City including the Green Deal.

District Energy

29. District Energy (DE), also referred to as local decentralised energy networks, provides for the local generation and supply of heat and power to supplement or replace the traditional centralised energy infrastructure (the national grid for electricity and gas supply). DE heat and power currently uses a number of fuel sources including gas or renewable biomass.

30. DE provides the opportunity for significant cost savings and reductions in CO_2 emissions and is considered by Government as a key solution to delivering low carbon energy in areas with high heat demand density such as apartment blocks, schools, hospitals, commercial centres and public sector estates.

31. There are currently five DE schemes in the City, which include; the City Centre, Centenary Quay, Holyrood Estate, the University of Southampton campus, and the University Hospital of Southampton. These schemes reduce Southampton CO_2 emissions by around 20,000 tonnes per annum, 2% of the total for the City, which equates to a £4 million saving in annual energy costs..

32. The university and hospital schemes are public sector owned and currently only supply those specific sites. The Centenary Quay scheme is operated by EON under contract with developer Crest Nicolson supplying domestic and commercial users with heat and power on the development site.

33. Cofely District Energy own and operate the City Centre and Holyrood schemes under a subsidiary Energy Services Company (ESCo) - Southampton Geothermal Heating Company (SGHC). The scheme covers 45 major buildings including customers such as IKEA, John Lewis, BBC, Scandia Life and the Civic Centre.

34. Taking a strategic approach will include a review current district energy schemes operating in the City, with the aim of determining opportunities for expansion. The Council and Cofely undertook a heat mapping exercise, in 2010, to assess the potential for DE schemes in the City. An initial assessment has identified a number of Council owned social housing areas that may suit DE.

35. The areas highlighted include existing social housing and the regeneration of estates areas for example Weston Shore, Thornhill, Townhill Park and Millbrook. There are opportunities to create larger DE networks by incorporating other public sector buildings, including schools and leisure facilities, along with larger commercial developments. Best use of grant funding through the new Energy Company Obligation (ECO) will also be used to support a DE programme.

36. Feasibility work is currently being undertaken in the areas identified by heat mapping. This also includes the potential to capture heat from the Marchwood Energy from Waste (EfW) plant as a source of energy for the City.

37. Developers are already strongly encouraged by the planning process to consider DE or to connect to a relevant DE scheme in the City. This strategic work will ensure a clearer understanding of which development sites are suitable for a DE network, or for a connection to an existing scheme.

Current Energy Projects

38. The Council has already made significant investments in energy efficiency and renewable energy measures over the last 5 years with measurable benefits in terms of cost reductions and Carbon savings.

39. Two examples of this are:

    - The Salix Energy Efficiency Programme has spent almost £900k on energy efficiency works, which is currently estimated to avoid costs to the Council of almost £250k per annum with a 3.5 year payback on investment.
    - Over the last 2 years the Council has installed over 500 kWp of solar photovoltaic on its buildings which is calculated to provide £100k per annum for 25 years in Feed in Tariff (FiT) payments.

    Carbon savings for the examples above equate to approximately 2,000 tonnes of CO2 per annum.

40. A strategic programme would seek to further expand this activity to significantly increase the benefits to the Council and to the City.

Next Steps

41. If the strategic approach is approved, a Strategic Energy Action Plan will be drawn up with a list of feasibility study requirements and potential schemes for the City together with an outline indication of the likely resource commitment required.

42. The draft strategic energy action plan would outline the key opportunities and risks, and appropriate technologies, Other key considerations include the legal implications, and the resource requirements, both revenue and capital, of implementing a large programme of this nature. Investment grade business cases will be commissioned and produced for suitable schemes for appropriate member approvals.

43. Opportunities will be explored for joint working on low carbon energy with other local authorities in the Solent region and nationally.

RESOURCE IMPLICATIONS

Capital/Revenue

44. Existing officer resources within the Council are available to draw up a Strategic Energy Action Plan. Work will be progressed through the Action Plan to identify suitable funding streams for a strategic delivery programme, and for individual projects. Further resource requirements will be determined by developing a detailed delivery programme with options on how this could be delivered recognising the Council's significant financial constraints.

45. A large scale strategic programme for energy will require significant capital funding, either by the council, other public funding, or through private sector investment. There is an expectation that resources to support a delivery programme would be predicated on the achievement of financial benefits for the Council. In some cases this funding could return a long term income stream. In other instances such investments may be considered as infrastructure investment to meet wider community, environmental or economic objectives

46. A council-wide officer stakeholder group has been set up to ensure a corporate ownership of the Strategic Energy Action Plan. It is also intended that a delivery programme would be drawn up with support from Southampton University and key commercial partners in the sub-region and the Solent LEP.

47. Working collaboratively with other councils will generate efficiencies through, shared resources and best practice, and economies of scale. This approach could also provide access to other funding sources that would not be available to the Council on its own.

Property/Other

48. A strategic programme for energy has major implications for the investment in and the design, development and maintenance of the Council's building estate.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

49. The Council has the power to develop a strategic energy programme by virtue of s.1 Localism Act 2011. Under s.1 the Council has the power to do anything an individual may do subject to any pre or post commencement limitations (also known as the 'general power of competence'). Individual projects and legal powers / implications arising out of those will be considered separately on a case by case basis.

Other Legal Implications:

50. Legal implications will arise from the development of a strategic programme of schemes and individual project developments. This includes, for example, the implications relating to funding, delivery structures (including related procurement issues), governance, and scheme operation.

POLICY FRAMEWORK IMPLICATIONS

51. A strategic approach to energy satisfies a number of council policies and key objectives.

52. The Council has embarked on a comprehensive programme of estate regeneration, whose vision is 'to create successful communities on our estates where people will want to live in the future. Our communities will be comprised of people of different ages and backgrounds, where work is normal for all who are able to. Homes and public spaces will be designed to provide safe and secure environments and local people will take an active involvement in ensuring the success of their community'. The strategy for delivering this vision includes high quality, environmentally sustainable new homes, and infrastructure with an emphasis on improving environmental well-being i.e. providing greener homes with cheaper running costs, which feeds into the wider city energy strategy objectives.

AUTHOR:	Name:	Jason Taylor	Tel:	023 8083 2641
	E-mail:	Jason.taylor@southampton.gov.uk		

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	None

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

	Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	