



Report 09.395
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Committee Regional Sustainability
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Proposed Insulation and Clean Heating Retrofit Scheme

1. Purpose

To consider whether Greater Wellington should participate in the Energy Efficiency and Conservation Authority's home insulation scheme.

2. Significance of the decision

The matters for decision in this report have been assessed using the Council's Policy on Significance and are considered to be of low significance. The decision(s) detailed in this report are provided for in the Council's 10-Year Plan 2009-19. This report complies with the decision-making procedure set out in the Local Government Act 2002.

3. Background

The Government announced in the Budget on 28 May an extension to the existing Energy Efficiency and Conservation Authority (EECA) grant scheme for home insulation. Previously the scheme had an income cap, the Budget removed that income cap, and the scheme is now open to all home owners provided the home was constructed prior to 2000.

Under the scheme, EECA provides a grant for a third of the cost of home insulation up to a maximum of \$1,300 for non Community Services Card holders (CSC). For CSC holders EECA will provide a 60% grant for insulation. There is also a separate scheme whereby EECA will grant a further \$500 for the installation of clean heat. This scheme is only available for houses that have both ceiling and floor insulation.

EECA submitted on Greater Wellington's 2009-19 LTCCP that Greater Wellington should participate in the EECA scheme by making available, a grant to fund the remainder of the cost of home insulation and clean heating. This grant would spread the cost to ratepayers, thus increasing the affordability of the retrofit.

The grant made by Greater Wellington would then be recovered via a targeted rate.

4. **The Scheme**

The scheme is owned by EECA and is limited to houses built prior to 2000. It applies to insulation (ceiling and floor), ground damp lining, draft stopping, and hot water pipe and cylinder wrap. In respect of clean heating, it would apply to externally flued gas heaters, efficient log burners and heat pumps. Clean heating will only be offered by EECA to those homes that have ceiling and floor insulation.

To be eligible for the grant, only EECA accredited service providers (installers), goods and services can be used. EECA also operates an audit regime to ensure service providers supply quality service and products.

The EECA insulation scheme will provide a grant for one third of the cost of home insulation up to a maximum amount of \$1,300 (including GST) for non CSC ratepayers.

For those homeowners who hold a Community Services Card, EECA will pay 60% of the cost of home insulation.

In respect of clean heating the maximum grant is \$500.

A press release from the Minister of Energy outlining the scheme is attached (refer **Attachment 1**).

EECA has approached banks, councils, and energy companies to provide third party financial assistance for the remaining cost of the home insulation. The major banks have agreed to waive loan application fees for anyone applying for funding under the scheme. The power companies have declined to participate, while a number of councils (including Greater Wellington) are considering participation in the scheme.

5. **Benefits of the scheme**

According to EECA there are a number of benefits arising from the scheme, in particular:

- Warmer homes
- Reduced heating costs
- Reduced greenhouse emissions
- Reduced air-borne pollutants especially where inversion layers are experienced e.g. Masterton
- Health benefits through warmer homes, reduced internal humidity and reduced external air pollution
- Reduced absenteeism from work and school due to health benefits leading to increased productivity
- Reduced load at the peak energy use time (morning and night) leading to increased security of energy supply
- Increased general environmental awareness across society
- Job creation opportunity, especially during the recession.

6. Greater Wellington's involvement

Greater Wellington has been asked by EECA to participate in the scheme by providing a grant to fund the remaining cost of home insulation and clean heating over and above the monies provided by EECA. This grant would then be repaid by way of a targeted rate.

Greater Wellington did not include this activity in its Proposed 2009-19 LTCCP as EECA did not discuss this scheme with Greater Wellington until after the LTCCP had been released for consultation. EECA submitted on the proposed plan requesting that Greater Wellington participate in the scheme.

Legal advice obtained by EECA, stated that Greater Wellington could include this activity without further consultation. Greater Wellington has obtained its own legal advice on this matter which broadly agrees with this conclusion.

Council approved on 30 June, an amendment to the Revenue and Financing Policy allowing Greater Wellington to participate in the scheme if it so chooses. Audit New Zealand had no problems with this amendment.

Therefore, Greater Wellington can participate in the EECA scheme without producing an amendment to its 2009-19 LTCCP.

7. How would the scheme operate?

The owner of a house would make an enquiry with EECA who will contract a service provider to assess the house, provide retrofit options, costs and financing options.

Only EECA approved products and providers can be used under the scheme.

Upon acceptance from the owner, the approved service provider would install the home insulation/clean heating, receive the grant from EECA and bill the homeowner for the remaining balance.

If the homeowner wishes to obtain funding assistance from Greater Wellington, then the following additional steps would be required:

- Homeowner must be approved under the EECA scheme
- The approved service provider advises Greater Wellington/EECA of the details regarding costs, homeowner etc.
- Greater Wellington confirms with the rating database that the homeowner qualifies for assistance from Greater Wellington and that there are no rate arrears
- Contract signed between homeowner and Greater Wellington
- Service provider sends a copy of the invoice to Greater Wellington for the amount to be funded by Greater Wellington after deducting the EECA grant
- Greater Wellington confirms back to the ratepayer details of the grant
- Greater Wellington pays EECA or service provider.
- A targeted rate is charged to the property over a 10 year period.

Greater Wellington will not undertake any marketing, quality control, monitoring of installations etc. This will be undertaken by EECA.

8. The targeted rate

If a ratepayer obtains a grant from Greater Wellington via this scheme, they will be agreeing to pay a targeted rate over 10 years to repay the grant.

However, the rate would not be charged in the first year that the grant is made to a ratepayer. For Greater Wellington to charge a rate it must be included on the assessment notice sent out to each ratepayer. The assessment notice is sent out at the beginning of the year in July, at that stage Greater Wellington will not know which ratepayers will take up the scheme in that particular year.

Therefore, the targeted rate would start in year 2 for a ratepayer who received the grant in year 1 of the scheme and would be rated over the remaining 9 years.

The targeted rate would comprise the interest costs to Greater Wellington (including the accrued interest from year 1), the repayment of the grant and any administration costs.

The interest rate charged by Greater Wellington will be the same for all ratepayers involved in the scheme, but it may vary from year to year. It will be based on Greater Wellington's average cost of debt.

In respect of the targeted rate it will be charged on the basis of the provision of the service to the rating unit.

The targeted rate will be based on the grant, which in effect provides the level of service to the rating unit. The rate will be charged as a percentage of the grant, the same percentage will be charged to all ratepayers participating in the scheme regardless of where their house is located in the Greater Wellington region.

For example, using a constant interest rate of 7% over the 10 year period this would equate to a rate per year of 15.4% on the amount granted (for years 2 to 9) for each of the grants made by Greater Wellington. For a grant of \$2000 this would result in a rate of \$308 per annum.

The calculation works in a similar manner to a table mortgage offered by a bank.

It must be remembered that the percentage used is recovering not only Greater Wellington's interest costs, but also the repayment of the grant. If no interest was charged then the repayment of the grant only would equate to \$200 per annum (\$2,000 repaid over a ten year period).

The rate would be attached to the house and not the ratepayer. If the house was sold the rate would continue until the grant has been repaid.

The proposed targeted rate has been discussed with the territorial authorities that collect our rates and there are no issues with it from their perspective.

9. How much?

Greater Wellington will only make the grant in conjunction with EECA funding. The Budget allocated \$323.3 million over 4 years to retrofit 180,000 homes.

There are two questions that need to be answered:

- a) What is the maximum amount Greater Wellington will grant to an individual ratepayer?
- b) Is there a cap on the total amount Greater Wellington will grant in any one year?

The EECA grant, in respect of home insulation, is for one third of the costs up to a maximum of \$1,300 (inclusive of GST) while the grant for clean heating is \$500.

The average home can be insulated for \$2,200 to \$3,400. If Greater Wellington was to pay the remaining cost of home insulation based on this average it would require a grant of between \$1,467 and \$2,267.

Alternatively, Greater Wellington could set the maximum grant on the same basis as the EECA grant in respect of home insulation. That is to say EECA would grant up to a maximum of \$1,300 while Greater Wellington would set its maximum amount at \$2,600.

Cost of Insulation (\$)	Maximum grant from EECA (\$)	Amount left to be funded (\$)
1,500	500	1,000
2,000	667	1,333
2,500	833	1,667
3,000	1,000	2,000
3,900	1,300	2,600
4,500	1,300	3,200

Based on a 7% interest rate the impact on rates is noted below:

Maximum grant	Targeted Rate (at 15.4%)
\$1,467	\$225.92
\$2,267	\$349.12
\$2,600	\$400.40

It should be noted that regional rates for the average home in Wellington City in 2009/10 is \$339.

It is proposed that for simplicity the maximum amount that Greater Wellington will grant will be set at \$2,600 (inclusive of GST). This limit would apply for both home insulation and clean heating. In other words the maximum amount Greater Wellington would grant under the EECA for either home insulation and/or clean heating to a single property would be \$2,600.

Greater Wellington will only advance the funds in conjunction with the EECA scheme. Currently, there is a budget of \$323.3 million over 4 years. There is no cap on the amount spent in any particular year as long as the total amount does not exceed \$323.3 million.

It is difficult to estimate how many ratepayers in the region would take up the grant from Greater Wellington. Based on the total amount available to EECA (\$323.3 million) this would allow around 180,000 homes across the country to benefit. The region has approximately 10% of the country's population which would equate to around 18,000 homes over the 4 year period, or around 4,500 per annum. It is unlikely that the majority of those homes will wish to take advantage of the Greater Wellington scheme as there are alternative sources of funding (eg, the banks).

Assuming that 20% of these homes obtain a grant from Greater Wellington, this would equate to around \$2.3 million in grants per year. Based on this, it is proposed that Greater Wellington should limit its grants at \$3 million per annum.

10. Legal

Our lawyers were asked a number of questions, in particular:

- a) Can Greater Wellington recover the amounts funded under this scheme by way of a targeted rate?
- b) Does this proposal come under the Credit Contract and Consumer Finance Act 2003 (CCFA)?

Simpson Grierson has confirmed the following:

- a) A targeted rate can be set on those rating units that receive the grant. Liability for the rate can be calculated so that each rating unit repays roughly the amount of the initial grant plus interest on the outstanding amount.
- b) The arrangements that Greater Wellington proposes to enter into will constitute a credit contract but will not constitute a consumer credit contract. As a result most of the disclosures required by the CCFA will not apply.

A simple contract will be signed between Greater Wellington and the ratepayer. The main terms of the contract will be:

- Acknowledgement from the ratepayer that they accept the targeted rate will be charged on their property. This is important as the targeted rate cannot be charged until the second year following the grant being made.
- The term the grant will be recovered over.
- How the targeted rate will be charged.
- The purpose of the grant.
- That if the house is sold the ratepayer must inform the new purchaser of the grant.
- That early repayment of the grant is permitted.

A draft contract has been prepared and reviewed by our lawyers.

EECA has a contract with each of the approved service providers which details each party's obligations. Greater Wellington may also become a party to these contracts between EECA and the service provider.

11. Cost Neutral

The scheme will be cost neutral to Greater Wellington. All additional costs incurred in respect of the scheme (interest, administration) will be recovered via the targeted rate. Ratepayers who do not participate in this scheme will have no impact on their rates.

12. Responsibilities

The Finance department would be responsible for administering the scheme with all applications approved by either, the Manager, Finance or the Chief Financial Officer.

13. When

Subject to the Committee and Council approval, it is proposed that Greater Wellington's involvement would commence in September/October 2009. The steps that will need to be undertaken following approval are:

- a) Advise EECA who will distribute details of the scheme to their approved service providers
- b) Details of the scheme to be put on Greater Wellington's website.

14. Assessment of options

Prior to making a decision on this matter there are a number of factors to be considered by Councillors.

14.1 Community views

Under section 78 of the Local Government Act 2002 (and subject to judgements made under section 79 about how to achieve compliance) the Council must, in the course of its decision-making process, give consideration to the views and preferences of persons likely to be affected by, or to have an interest in, the issue for decision.

This has been done at the stage of defining the objective (or purpose) and identifying the reasonably practicable options for achieving that objective. Greater Wellington will need to be comfortable with this prior consideration and consider the community views in the course of assessing the options and making a decision.

Greater Wellington is not necessarily required, by section 77 of the Local Government Act 2002, to undertake any consultation.

Greater Wellington will therefore need to consider the views and preferences of persons likely to be affected by, or have an interest in, Greater Wellington's decision of whether or not to provide for a mechanism to provide ratepayers in the region, a grant to participate in the EECA scheme. It is not believed that consultation is necessary to identify community views on the objective identified and decision recommended by this report. Officers do not consider that consultation is necessary for the following reasons:

- This proposal is allowed for in the Greater Wellington's Revenue and Financing Policy;
- The proposal to participate in the scheme is broadly consistent with existing policies and strategies of Greater Wellington;
- Ratepayers will only be affected by this rate if they receive the benefit of the insulation scheme; and
- This scheme will be cost-neutral to Greater Wellington.

Officers believe that the community will view this scheme positively, or have no view for the following reasons:

- The proposal is broadly consistent with existing policies and strategies of Greater Wellington. The policies and strategies have been developed over many years and largely reflect community views;
- Ratepayers will only be affected by this rate if they receive the benefit of the insulation scheme; and
- This scheme will be cost-neutral to Greater Wellington.

14.2 Evaluation of options

The options are for Greater Wellington to provide for a targeted rate for the provision of services (grants) to ratepayers. This would enable ratepayers to participate in the EECA home insulation scheme. Alternatively, Greater Wellington could decide not to participate in the scheme.

Greater Wellington approved a change to its Revenue and Financing Policy to allow for it to set a targeted rate in respect of this scheme. Therefore, it is not possible to fund this scheme in an alternative manner without a further change to Greater Wellington's Revenue and Financing Policy.

Below is a table outlining reasonably practicable options and assessing those options in accordance with the matters outlined in the Local Government Act 2002.

	Deciding to go ahead with the Scheme	Refusing to go ahead with the Scheme
Benefits in terms of the 'four well-beings'	By deciding to go ahead with the Scheme the Council will be promoting the economic and environmental wellbeing of the Wellington Region. Improving the insulation of homes is likely to make heating homes more efficient	Nil
Costs in terms of the 'four well-beings'	Nil	By refusing to go ahead with the Scheme the Council will miss out on the opportunity to promote the economic and environmental wellbeing of the Wellington Region
Promotion of community outcomes	Healthy community	Strong and tolerant community – some individuals may feel that greater public involvement in this proposed decision is warranted
Impact on capacity to meet present and future needs	Nil	Nil

15. **Communication**

A press release will be prepared for consideration by Council.

16. **Recommendations**

That the Committee recommends to Council that it:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Approves** Greater Wellington entering into the EECA scheme under the terms and conditions noted in this report, specifically a maximum amount per ratepayer of \$2,600 (including GST) and a total dollar cap per annum of \$3 million.*
4. ***Authorises** the Chief Financial Officer or the Manager, Finance to approve grants to qualifying ratepayers, in accordance with recommendation 3 above.*
5. ***Authorises** the Chief Financial Officer or the Manager, Finance to enter into contracts with ratepayers in accordance with section 10 of this report.*
6. ***Authorises** the Chief Financial Officer to enter into contracts between EECA and the approved service providers.*

Report prepared by:

Report approved by:

Barry Turfrey
Chief Financial Officer

David Benham
Chief Executive

Attachment 1: Press release from the Minister of Energy