



## Association for the Conservation of Energy

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# Bright Blue report on Home Energy Efficiency: evidence from ACE

## Introduction

The Association for the Conservation of Energy represents the energy efficiency sector in the UK. It works to enable the UK to become energy efficient, driving productivity and business competitiveness, providing warm and healthy homes, delivering a secure energy future and a vibrant low carbon economy. Working with its members and like-minded organisations, ACE delivers compelling research, policy thought leadership and effective campaigning in Westminster and devolved national and local administrations.

Below we provide our thoughts on each of the questions asked by the Bright Blue team in their call for written evidence. We would be happy to discuss these further with the report authors.

### **Why did the Green Deal fail? In particular, what mistakes were made in the design of the finance mechanism and the communication of the scheme?**

The first point to note here is that the Green Deal was not a complete failure. There are 14,000 households that found the offer of Green Deal finance attractive enough to take out a Green Deal Plan, and these households have installed measures that they might not otherwise have been able to finance. In addition, an unknown number of the remaining households who had a Green Deal Advice report may have taken action based on this without the use of Green Deal finance.

However, the scheme has clearly not met Government expectations and has not led to the necessary growth in energy efficiency investment by able-to-pay consumers. Some of the key issues with the scheme as implemented are discussed here.

A fundamental problem was that, as the scheme was developed and implemented, political attention focused on the finance mechanism to the exclusion of other supporting policies (for example, application of minimum efficiency standards in the building regulations during refurbishments –

proposed through a 'consequential improvements' clause for the building regulations but withdrawn after negative press coverage. The assumption seems to have been that lack of finance was the overriding barrier to greater action on energy efficiency: this is clearly not the case and a more comprehensive policy framework is needed to drive demand.

In the development of projections for the uptake of Green Deal finance, there seems to have been little recognition that finance at a market rate of interest, favourable in comparison with unsecured loans but not attractive when compared with secured loans or savings, would only be attractive to a specific section of the population.

The design of the finance mechanism, to include the 'Golden Rule', led to a funding gap because Green Deal finance could only cover a part (and in many cases the smaller part) of a typical home retrofit. The fact that major retrofit packages costing several thousand pounds were only part-financeable through the Green Deal was for many households a deal-breaker. There are two elements to overcoming this funding gap: first, an improvement in the estimation of costs of, and energy savings from, the major measures, so that advisors can be less over-cautious in their use of 'in use' reduction factors for measure savings; second, a link to finance options that are not subject to the Golden Rule, so that a householder can choose to invest in energy efficiency measures where the cost may not be totally covered by energy bill savings.

The communication channels to the consumer were very restricted. There was little attention paid to engaging the supply chain; Government focused initially on trying to engage major retailers to sell the scheme, when a more appropriate channel would have been the small builders and installers that engage with householders about repairs, maintenance and improvement (RMI) on a daily basis. Indeed, these small firms and sole traders were prevented from offering Green Deals (even those not using Green Deal finance) unless they were linked to Green Deal Providers. There was also relatively little use of trusted intermediaries such as local authorities or community organisations.

The communication of the offer also focused on energy bill savings, rather than messages that have been shown to have more impact on consumers (e.g. comfort, health, property value). There is evidence of the potential effectiveness of alternative communication channels and messages, including from the Green Deal theme within DECC's Local Authority Competition 2012-13<sup>1</sup>.

The Green Deal Advice report itself is not perhaps the most consumer-friendly document. It does not provide a clear 'route-map' that explains how energy efficiency investments can be integrated with other home refurbishment projects and hence does not link well to the existing RMI market.

Despite these failings, we believe that it was a mistake to stop the scheme by withdrawing support for the Green Deal Finance Company last summer. New customer offers take a long time to get off the ground, and Green Deal Providers and installers alike were refining their offer, the way they marketed the scheme, and identifying the real lessons for improvement from their experience to date. As Figure 1 suggests, the number of households taking out Green Deal Finance was accelerating until last year's decision, with the shape of take-up appearing to resemble a typical 'healthy' market transformation pattern, despite the weaknesses of the scheme and its surrounding policy framework<sup>2</sup>.

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<sup>1</sup> <https://www.gov.uk/government/publications/local-authority-competition-evaluation-report>; see in particular pp41 to 45 of the main evaluation report

<sup>2</sup> Derived by ACE from DECC statistics on Green Deal plan uptake

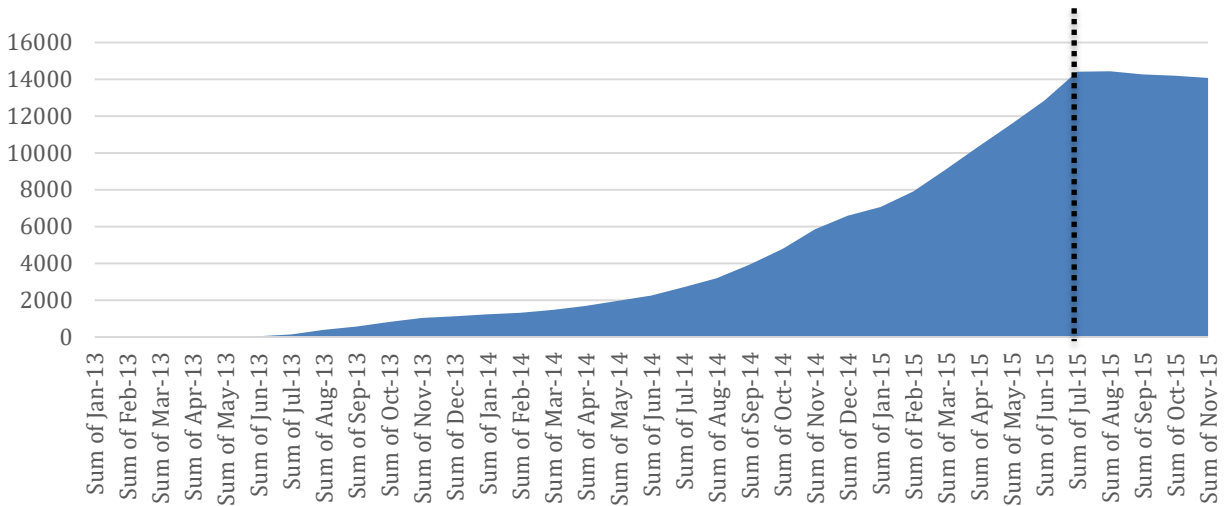


Figure 1: Number of households with Green Deal Finance plan

### What aspects of the Green Deal scheme should be retained in a future policy?

There is value in a finance offering with a Pay as You Save model at its core. This value is increasingly recognised in other countries, in particular in the US, where it is implemented via 'Property Assessed Clean Energy' programmes<sup>3</sup>. However, there needs to be greater flexibility around repayment terms and the application of the Golden Rule than in the original Green Deal finance scheme, and better cross-selling between this and other finance offerings that may be more attractive to some consumers.

It will be important to retain the quality assurance element of the Green Deal, although this should apply to all energy efficiency work, not just that which is delivered through any Government-backed initiative (see below for more on this).

High quality advice on energy efficiency investments is crucial but, as mentioned above, improvements to the existing report are needed. There are interesting trials of 'retrofit road-maps' happening now in Germany and France, and it will be useful to understand the learning from these<sup>4</sup>.

### How should Green Deal-style loans for the able-to-pay sector be financed in the future? Is it necessary for the Government to provide any subsidy to the scheme?

In the long-term, the loans could be financed by the private sector. However, these loans will be most useful if they are accessible by households that do not have access to other sources of finance at similar or lower rates of interest. The profile of these households, together with the lack of experience of energy efficiency investments amongst finance providers, may mean that there will be a need for Government to underwrite the scheme until commercial lenders have sufficient confidence in the risks involved that they are willing to support the loan book with no further Government intervention.

There may be a need for some targeted, time limited and tapered subsidies whilst innovative solutions to harder to treat properties become established in the market and prices fall to a level acceptable to consumers. But beyond this, a supporting policy framework is what is required, rather than broader subsidies. Consistent and long-term 'nudges' to help drive initial demand are needed.

<sup>3</sup> See <http://www.pacenation.us/> for more on US schemes

<sup>4</sup> See <https://um.baden-wuerttemberg.de/de/energie/beratung-und-foerderung/sanierungsfahrplan-bw/>. We have further information on these (in English), and would be happy to supply if required

The simplest, most effective and potentially least-cost option would be a long-term timetable for the introduction and tightening of minimum efficiency standards for all buildings. This is not politically acceptable at the present time, but there is scope to broaden and strengthen regulation of rented properties. And some of the impact of regulations on asset value could potentially be delivered via the use of a home 'quality mark'. This idea has been implemented in Switzerland, in the Minergie programme<sup>5</sup>.

Stamp duty differentials, which could be designed to be fiscally neutral, are an idea that has received widespread support<sup>6</sup>. This particular mechanism has not been used before, and hence should be piloted robustly before national implementation.

The finance sector should be engaged and encouraged to develop loan products for energy efficiency investments (for example, mortgage top-ups with preferential rates linked to the achievement of defined levels of energy efficiency). The LENDERS project<sup>7</sup> is a potentially useful step in this direction.

### **What lessons do you anticipate from the Bonfield Review about quality assurance in the supply chain? How can these be incorporated into a Green Deal successor scheme?**

It is difficult to second-guess the detailed outputs from the review, but it is likely that two relevant themes will emerge:

- A single quality assurance scheme is needed, covering all energy efficiency work, and this should be used by any successor to the Green Deal
- The quality assurance needs to be accessible to all actors in the supply chain: this implies that the process needs to be as simple and cost-effective as possible whilst ensuring robustness, so that the costs of registration and compliance are not prohibitive to smaller businesses

### **How can a Green Deal successor scheme be successfully communicated to consumers?**

Many of the elements for successful communication of a successor scheme have been mentioned above. To summarise:

- A clear goal should be set for the desired level of energy efficiency in existing buildings, with the reasons for this explained in a way that home owners understand and relate to. The development of a desirable 'kitemark' for high quality homes should be encouraged and supported and the energy efficiency elements of this should be consistent with the national vision for energy demand and carbon emissions reduction.
- Messages need to focus on health, wellbeing, cosiness and asset value, as well as on control over energy bills and resilience to future price rises.
- Communication channels and timing should focus on working with the existing RMI market, using trusted contractors and other local intermediaries.

### **What are the best options for decarbonising the domestic heat sector?**

The choice between different supply options for low-carbon heat is not yet clear, although it is highly likely that different solutions will be required for different property types and geographical areas.

<sup>5</sup> [http://www.minergie.ch/home\\_fr.html](http://www.minergie.ch/home_fr.html)

<sup>6</sup> E.g. [http://www.policyexchange.org.uk/publications/item/efficient-energy-policy?category\\_id=24](http://www.policyexchange.org.uk/publications/item/efficient-energy-policy?category_id=24) and [http://publications.arup.com/publications/t/towards\\_the\\_delivery\\_of\\_a\\_national\\_residential\\_energy\\_efficiency\\_programme](http://publications.arup.com/publications/t/towards_the_delivery_of_a_national_residential_energy_efficiency_programme)

<sup>7</sup> <http://www.ukgbc.org/press-centre/press-releases/uk-gbc-partners-ground-breaking-green-mortgages-research>

However, what is clear is that, for an optimal solution to be delivered, demand reduction must be considered on an equal footing with the range of supply options; which means designing solutions that reduce demand for heat to the point where the marginal cost of doing so equals the marginal cost of decarbonising supply. Given that the 'best' supply option for any given situation is yet to be determined, analysis of the contribution of demand reduction will, at present, have to be linked to scenarios containing differing supply options.

This analysis, and the actions that follow on from it, are vital to ensuring that heat decarbonisation happens at lowest cost to the consumer and with the lowest risk of creating future stranded assets as heat demand falls.

### **How can the Government incentivise the take-up of renewable heat technologies within a Green Deal successor scheme?**

We would argue that a Green Deal successor scheme should be designed to incentivise decarbonisation of heat at the lowest cost, not simply to incentivise the take-up of renewable heat technologies.