

## Submission from the Centre on Innovation and Energy Demand (CIED)

### **1. 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?**

There is a multitude of factors that led to the failure of the Green Deal. Some of the key ones are:

**Unattractive financial package:** For most households the Green Deal was not financially attractive. Given that until the end of 2012 low-cost energy efficiency measures were provided at heavily subsidised rates through CERT and CESP the 7.5% interest rate was a big ask. It worked for a small segment of households (those on low credit ratings with no other means of getting a loan) but lacked appeal to the vast majority of the able-to-pay market. Research commissioned by DECC shows that consumers deem interest rates of 2-3% attractive.

**Complexity:** The Green Deal was a complex policy and the consumer journey was not as straightforward as it needed to be.

**Narrow marketing:** The Green Deal was primarily marketed as a financial proposition. Research from across the world shows however that households respond much stronger to marketing that emphasises the comfort benefits of efficiency and the positive impact on the asset value of people's homes.

**Limited engagement:** Energy efficiency is not an easy sell. It can be perceived as boring and disruptive. The universal 'one size fits all' approach of the Green Deal did not address either of these concerns, and as a result, take-up was incredibly low.

**Low demand:** People do not buy something that they do not want or need: without demand, there is no market for energy efficiency. The previous approach fundamentally failed to address this problem, instead only focussing on the means (the ability to take out a loan attached to the property) to enable consumers to retrofit their home.

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

There are several aspects that should be retained and further explored:

- The **PAYS approach** was in principle a valuable and innovative way of financing energy efficiency. Whilst the financial conditions applied to the Green Deal were unattractive, the PAYS approach itself was not the reason for its failure. The concept should be tested further in order to explore where it can be most effective.
- The **accreditation system and consistent branding** was one of the Green Deals stronger features, even though not perfectly implemented (DECC have stated that 11% of all installations under the Green Deal were not compliant with the technical standards; there is anecdotal evidence about 'cowboys' selling Green Deals to households in Wales in particular). Future schemes should build on this – a good example is also the KfW programme where strong branding and accreditation are key building blocks of the programme.

### **3. 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?**

There is no doubt that if the Green Deal-style financing model is ever to be successful this would require government subsidies. Internationally there is no energy efficiency scheme that is not underpinned by substantial public funding, whether raised through general taxation or energy bills.

The Green Investment Bank could in theory provide loans to the Green Deal Finance Company (which still exists) at reduced interest rates if government was prepared to provide subsidies for the interest rate reduction. This would be similar to the KfW model.

### **4. 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 expected that the Bonfield Review will stress the importance of quality assurance for successful energy efficiency programmes. This includes the whole of the supply chain, from those who promote interventions through to installers and manufacturers. A Green Deal successor scheme would need to establish robust criteria for the accreditation of those involved in delivery. There are good examples from elsewhere that can be drawn upon.

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

As briefly mentioned above, the messages used to promote a new scheme would need to be much broader following a market segmentation approach. International evidence shows that households respond much more strongly to non-financial messages around comfort, quality of life and the value of their properties. Tapping into those needs and wants is a much more promising avenue for promoting future schemes.

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

Decarbonising the domestic heat sector will require significant efforts on a number of fronts. However, prior to upgrading the heat infrastructure the potential of energy efficiency to reduce future heating needs should be considered carefully – it is often cheaper to reduce heat demand first or at the same time and then carry out investments into the heat infrastructure itself (whether this is electrification of heat, solar thermal, heat pumps, hydrogen or biogas).

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

Within financing schemes renewable heat technologies can in principle be incentivised in the same way as energy efficiency technologies.