Response to Bright Blue request for evidence on domestic energy efficiency

Marksman Consulting is an environmental finance consultancy led by Christoph Harwood. We carried out a significant amount of work on Green Deal, mainly with local authorities prior to and after its launch. Initially many of these local authorities were interested in setting up their own Green Deal Finance Parties to provide funding to the local population. However, with the arrival of the Green Deal Finance Company (GDFC) this option was generally dropped and their local programmes focused on using that company to provide finance for local householders.

Marksman Consulting also worked with some finance parties who were looking at setting up an alternative to the GDFC but who decided not to proceed because they could not beat the GDFC's interest rates.

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?

On one level the Green Deal did not fail as any consumer finance start up would have been pleased to have provided £50m worth of finance over two years. The start-up with which we were working only wished to provide £20m of loans. However, it of course did not meet government aspirations for energy efficiency and that was its failure.

There were a number of mistakes;

- The Green Deal was presented as a financing package rather than an energy service. By being a finance package it was covered by the CCA with all the attendant legislation and processes. A straight forward twenty year fixed service charge would have been simpler to understand and easier to deliver.
- The process was cumbersome and not customer friendly, driven by the CCA and other requirements. Given the low latent interest in energy efficiency, this was off-putting to customers.
- Local authority programmes often targeted the fuel poor rather than those who might be interested to taking on the Green Deal. It should not have been seen as a fuel poverty solution.
- The GDFC was a high cost start up, able to do this because of the public sector backing. A free-market start up would have been leaner.
- The interest rate was perhaps high, although it could not have been lower without the use of government, national or local, finance.

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

On bill finance, or the requirement for energy companies to collect Green Deal payments over the electricity bill must not be lost. It is a powerful way of collecting payments, overcoming the landlord/tenant disincentive and allowing long term payment plans across multiple owners or tenants.

Currently we are working with a finance party on using Green Deal in the non-domestic sector because of its benefits.

Christoph Harwood
13/05/2016

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?

Short term private sector finance is unlikely to be suitable given the interest rates they would need to charge to attract investors. Even community crowdfunding is looking for 5-6% returns and once costs and losses are added this would take the costs back to the levels offer by the GDFC.

The model we worked on with local authorities were that if they were to borrow from the PWLB and then refinance through warehousing facility then they might have been able to provide rates 1-2% below the GDFC. This model would still be valid, if there were appetite with local authorities to proceed.

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?

I am not close to this scheme and so cannot comment on quality assurance which I do not think will be a silver bullet. However, I understand that the use of green mortgages is being assessed. It would be good to have these as part of the finance mix on offer to customers but it will only work for people who consider they will be in their houses for the length of the mortgage.

It is important that consumers are offered a range of financing options, as they are when they buy a new car. One of these could be a green mortgage but one should also be on-bill finance via Green Deal if a new finance party can be found.

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

It is not a communication challenge but a benefit-case challenge. Energy efficiency is not interesting enough for most people and the financial benefits often do not stack up. The use of MEES in the non-domestic and PRS are a start in changing the demand picture and something similar needs to be considered for private householders. Ensuring that no house or flat can be sold without being at particular EPC level will increase demand. Many other incentives have been proposed already and these need to be considered.

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

In some parts of the country there is already excess electricity and there needs to be a significant focus on how to heat housing with electric power at low cost. This will be a challenge, even if starting with off-gas properties, as the cost of oil central heating is 4p/kWh compared to 14p/kWh. Using RHI to support new electricity powered heat technology, such heat pumps, heat and power storage to allow time-of-use arbitrage and infrared heating will enable us to move towards an electricity powered low carbon economy.

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

Allow RHI payments to be included under the Golden Rule so that finance parties can enter the market using on-bill finance.

Christoph Harwood
13/05/2016