Bright Blue: Commentary on the Green Deal

Produced by the Sustainable Energy Association – 16/06/2015

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?***

Succinctly, the interest rate was unattractive, the application process arduous for the customer and overly complex for potential Green Deal providers.

The amount of finance often made available was insufficient to cover the install costs of some of the energy saving measures, or indeed facilitate a whole house retrofit.

With regard to the interest rate, set at 6.96 percent in the early stages of the scheme, it is clear that this rate was unattractive in the face of other loan rates. Mortgages, for example are currently issued at exceedingly low interest rates which made the Green Deal seem unappealing in comparison.

More fundamentally, however, it is clear that this interest rate meant that some of the measures available through the Green Deal scheme were simply a bad investment- they would not return to the installee a return sufficient to justify the high interest rate. As such, it is no wonder that consumers were not attracted to the Green Deal.

Secondly, the scheme was complex and over bureaucratic. The fact the loan was tied to the property, and not the individual who took out the loan left complications and perceived uncertainties and risk which were undesirable with regard to sale of the property.

However, if a householder did decide they wanted to proceed with a Green Deal option, there was significant uncertainty with regard to which measures were eligible on houses. To clarify which measures were appropriate under the scheme, a Green Deal Advice Report would be issued. However, there were often costs associated with this report, running into the hundreds of pounds. This was due to suppliers needing to recoup the upfront cost to them in order to become a green deal provider.

These factors all made the Green Deal difficult to sell, and painful to buy. By the 31st of December 2015, only 14,000 (approx) homes had received Green Deal Improvements, despite over 600,000 Green Deal Advice Reports being issued.[1]

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

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477288/Headline_Release_-_GD___ECO_in_GB_19_Nov_Final.pdf

The concept of a low cost loan that does not impact on credit worthiness and personal debt is a good one which should be retained.

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?***

   Bright Blue should explore options for a revolving loan scheme – similar to that provided by Salix Finance to public bodies, but for private householders.

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?***

   N/A

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

Any scheme focused on those considered to be 'able to pay' needs to be significantly less bureaucratic. Financial institutions already have some incentives to offer loans to homeowners – particularly mortgage recipients – low-cost loans for energy efficiency improvements. For example, occupants of an energy efficient home will have greater disposable income which can be directed to repaying a mortgage, as opposed to being spent on energy bills.

The underdeveloped nature of this efficiency/finance market needs addressed however. Government should seek to tap into existing consumer-supplier relationships in order to access an effective marketing structure already in place.

Regulation which triggers a conversation about efficiency between financial institutions and building owners seeking finance represents a first step to ensuring options for efficiency are properly communicated to consumers. Further regulation which seeks to create a competitive market between financial institutions for these consumers will ensure that the private sector competes to deliver information – and finance- to appropriate consumers.

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

The Sustainable Energy Association advocates a fabric-first approach to supply of heat. Deep renovation could lower energy demand for heating by 70% or more, reducing the overall energy required in buildings by 50 percent by 2050 relative to 2012.[2]

An infrastructure-based approach would deliver the greatest savings. This is covered in further detail in Verco and Cambridge Econometric's report *Building the Future; the*

[2] European Parliament publication- briefing: *Energy Efficiency of Buildings; a near zero energy future*. (2016)

*economic and fiscal impacts of making homes energy efficient (*link) and Frontier Economics *Energy efficiency: an infrastructure priority (*link*).*

The SEA would not state that subsidy is essential to delivering these improvements. The savings offered by efficiency products offer a positive revenue stream which can be commercialised; regulation can prompt the private sector to deliver measures and the finance to install them if positioned in the correct manner.

The SEA has developed the concept of Heating System Plus. This will seek to improve heating system efficiency through a series of staged improvements in installation practice that will ultimately pave the pathway for future low carbon heating systems. The underlying principle is that heating systems should be made "low carbon technology ready" whenever this is possible and cost effective. Key to this is to use the disruption afforded by the need to install a new boiler to ensure firstly that the heating system is installed and operates in a way that ensures the high efficiency capabilities of modern boiler technology is fully exploited and secondly that wherever possible and cost effective systems are made "renewables ready" to encourage a transition to renewable technologies in the future.

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

The Government should mandate efficiency and renewable heating schemes where they are deemed cost- effective, i.e. those identified in EPCs.

The Government should also seek to motivate consumers to adopt energy efficiency measures through 'nudge' techniques. Key mechanisms to prompt uptake of 'good' behaviours are found here, in the report *Mindspace*, produced by the Institute for Government.

Concrete examples of the influence nudge behaviours can have on consumer perceptions of energy efficiency include prompts issued on bills. One well-publicised example includes this initiative in the United States of America by the supplier Opower.

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Please note, the Sustainable Energy Association have many ideas with regard to the future of energy efficiency and sustainable heating within UK Government policy. We would be happy to meet Bright Blue in order to discuss these ideas further.

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