

The Green Deal: Policy and practice update

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1. The Green Deal – Policies, Progress and Expectations

The Issue

The Climate Change Act 2008 legislates an 80% reduction of carbon emissions on 1990 levels with interim targets (34% by 2020). Emissions from the UK's domestic building stock accounts for 24% (146 MtCO_{2e}) of the UK's total CO_{2e} emissions¹ (either directly, through fossil fuel use, or indirectly, through electricity consumption), with business, industry and workplaces accounting for a similar amount². In order to meet the stipulated carbon budgets, the Department of Energy and Climate Change (Decc) are aiming for a 29% reduction of emissions from homes and communities and a 13% reduction in workplaces by 2022 (on 2008 baseline)³.

The heating of space and water accounts for 75% of home energy-use, up to a quarter of which can be lost through poorly insulated lofts and up to a third lost through poorly insulated walls⁴. UK building stocks score very low in energy efficiency ratings, particularly in the private rented sector (PRS), which represents 26% of all dwellings with the lowest energy performance certificate (EPC) rating (G). Furthermore, 20% of those living in the PRS are living in fuel

¹ Decc (2010a, p. 12)

² Chris Huhne, foreword to DECC (2010b, p. 2)

³ Decc (2010b, p. 7)

⁴ Decc (2010c, p. 1)

poverty⁵, i.e. in households that need to spend more than 10% of their full income on fuel for space/water heating. This is the problem that the Green Deal seeks to address.

What is the Green Deal and how will it work?

The Green Deal is a proposal in the *Energy Bill (2010)*, which will, in short, “enable private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost, and recoup payments through a charge in instalments on the energy bill”⁶. Consumers will repay the capital investment in instalments, with the savings they receive on energy bills. When paying their utility bills, a Green Deal charge will be added to the bill and paid back to the Green Deal provider by the utilities company. The Green Deal is therefore similar to a loan; however, the current bill-payer is not liable for the full capital cost of the measures, but pays the Green Deal Charge only *whilst* they are the bill-payer, so that “the charge is only paid whilst the benefits are being enjoyed”⁷.

Decc outline a number of consumer protection prerequisites⁸:

- **The expected financial savings must be equal to or greater than the costs attached to the energy bill** (the Green Deal “Golden Rule”).
- The **measures must be approved** and the claimed bill savings must be those accredited through this process.
- The measures must be installed by an **accredited installer**.
- For householders, the Green Deal provider must give appropriate advice within the terms of the **Consumer Credit Act** and take account of the individual circumstances of the applicant.

⁵ Decc (2010a, p. 14)

⁶ Decc (2010b, p. 5)

⁷ Ibid

⁸ Decc (2010b, pp. 5-6)

- The Green Deal provider must have **consent** from the relevant parties, including the express consent of the current energy bill payer.
- The presence of a Green Deal must be **properly disclosed to subsequent bill-payers** (e.g. new owners or tenants) alongside energy performance information.
- Energy suppliers must collect the Green Deal charge and pass it on with the **existing regulatory safeguards** for collecting energy bill payments – including protections for vulnerable consumers.

Green Deal measures are likely to count as fixed-term credit arrangements, therefore falling under the Consumer Credit Act (CCA) 1974. Green Deal providers will require a Consumer Credit Licence from the Office of Fair Trading (and will therefore be regulated in their activities). The Consumer Credit Act may have to be amended to apply appropriately to the Green Deal⁹. Interest on Green Deal repayments must not exceed the savings received, i.e. any credit policy must adhere to the ‘Golden Rule’. The Office of Gas and Electricity Markets (Ofgem) will regulate Green Deal repayments in the same way they regulate the payment of energy/utility bills.

The Government stresses that the Green Deal is not a ‘guarantee’ that energy bills will be reduced for individual consumers. The Government will offer advice on how to maximise benefits and reduce consumption, but responsibility is ultimately with the individual. Fuel poor households “may not save money because many do not have the heating turned on long enough to heat their homes sufficiently”, so for these homes the benefits will be warmer homes rather than cash savings¹⁰.

Fuel poor and difficult-to-heat homes will require additional support to bring Green Deal costs low enough to meet the Golden Rule. The Government is therefore introducing the new Energy Company Obligation (ECO) alongside the

⁹ Ibid, p. 13

¹⁰ Decc (2010a, p. 15)

Green Deal, which will “focus energy companies on improving the ability of the vulnerable and those on lower incomes to heat their homes affordably”¹¹. The ECO will continue the Government’s current energy company obligations, the Carbon Emissions Reduction Target (CERT) and the Community Energy Savings Programme (CESP), which are both due to expire in 2012.

The Government expects that landlords “will respond positively”¹², but is also proposing powers for the Secretary of State to regulate energy efficiency improvements on properties (such regulations are not likely to come in to effect until April 2015). Powers have also been proposed to require landlords to honour “reasonable requests from their tenants for energy efficiency improvements”¹³. This power would be granted to local authorities, and would focus on landlords whose properties were given an EPC rating of F or G.

Time-line and potential

The Government plans for the Green Deal Legislation to develop as follows¹⁴:

December 2010	Introduction of the Energy Bill to Parliament
Pre-Autumn 2011	Officials engage stakeholders as they develop the technical details for secondary legislation
Autumn 2011	Formal consultation on secondary legislation
Early 2012	Secondary legislation laid before Parliament
Spring 2012	Detailed industry guidance prepared
Autumn 2012	First Green Deals appear

¹¹ Decc (2010b, p. 6)

¹² Decc (2010b, p. 9)

¹³ Ibid

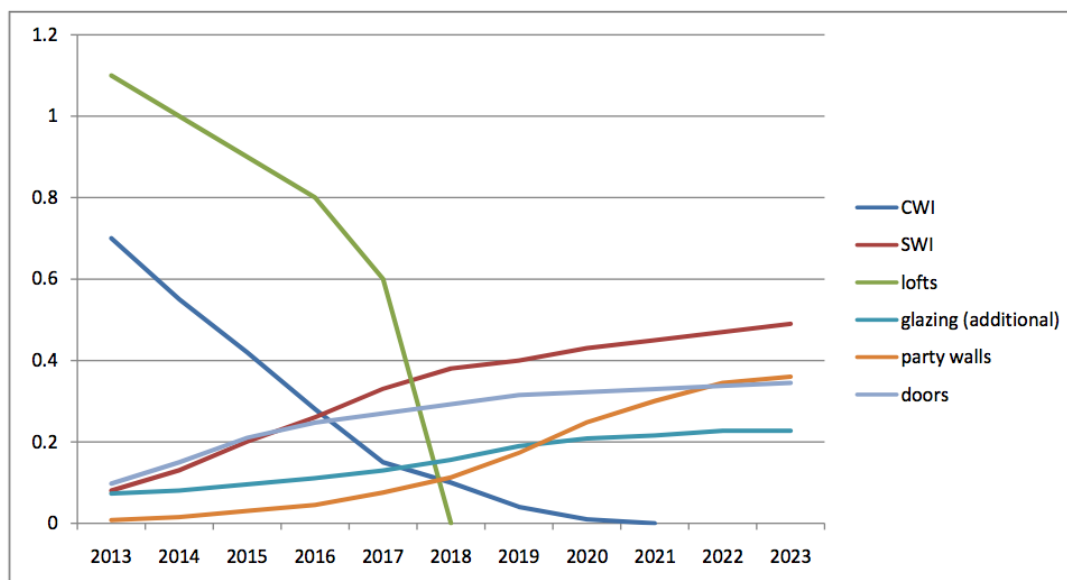
¹⁴ Ibid, p. 7

It is clear that much more needs to be done before a proper assessment of the Green Deal can be made. The Government mention in their report that current assessments “should be seen only as indicative of the broad scope of potential outcomes and in no way pre-empt the detail of the secondary legislation”¹⁵.

The table below¹⁶ shows the Assumed total number of installations for each measure (2013-2020). These figures are based on current market mechanisms and the marginal abatement cost curves for the various measures (see Annex 1).

Measure	Number of installations (m)		
	Low	High	Maximum feasible potential
Lofts	2.3	3.4	4.5
Cavity wall	0.5	2.3	4.0
Solid wall	1.8	2.2	3.1
Glazing	0.7	1.0	1.4
Party wall	0.5	0.7	0.9
Insulated doors	1.3	1.9	2.5

The graph below¹⁷ shows the suggested annual roll out of possible measures under the Green Deal and the new ECO (million installations).



¹⁵ Decc (2010a, p. 12)

¹⁶ Ibid, p. 20

¹⁷ Ibid, p. 115

The Government are optimistic about the improvements made possible by the Green Deal. They believe it could create up to 250,000 jobs in the industry¹⁸, and that it may one day “extend to other low carbon energy technologies in the future, such as microgeneration and combined heat and power technologies, should they meet the golden rule”¹⁹. It will improve on previous (under-achieving) non-regulatory efforts in the PRS, such as²⁰:

- Information services, e.g. the Energy Saving Trust (EST), which sees very few landlords taking proactive steps towards improvement;
- Fiscal incentives, e.g. the Landlords Energy Saving Allowance, which offers income tax deductions of up to £1,500 towards insulation measures, that saw only 2,100 claims between 2007 and 2008;
- Voluntary approaches, e.g. the low subscription-rates of sign up to Local Authority organised Landlord associations;
- Subsidy offers, e.g. those offered by CERT, which have been taken up at a particularly low rate (PRS tends to make up under 2% of installations carried-out under the scheme).

Decc estimates the following costs and savings of specific measures for consumers²¹ (based on CERT calculations in relation to an average three-bedroom, semi-detached house):

Measure	Savings (£/year)	Estimated cost to consumer
Loft insulation top up	Around £45	Around £250
Cavity wall insulation	Around £115	Around £250
Internal solid wall insulation	Around £380	£5000-£7000
External solid wall insulation	Around £400	£7600-£12600

¹⁸ Decc Press Release (2010), URL = http://www.decc.gov.uk/en/content/cms/news/pn10_104/pn10_104.aspx

¹⁹ Decc (2010b, p. 10)

²⁰ Decc (2010a, pp. 58-59)

²¹ Decc (2010c, p. 1)

2. Responses to the Green Deal – Praise, Criticism and Uncertainty

The Government claim to have been “encouraged by the variety of organisations interested in providing one or more of these services”²², i.e. Green Deal advisers and providers, or, in the case of the energy companies, also energy supplier. Some companies will cover all the services whilst others will specialise.

Large high street retailers such as Tesco, B&Q and Marks and Spencer have expressed their interest in delivering the Green Deal²³. Marks and Spencer began selling solar panels and cavity wall insulation in 2010, and have confirmed that they are in talks with Government about the Green Deal²⁴. Tesco likewise offers a range of energy efficiency and ‘green living’ services.

Ben Earl, social responsibility advisor on climate change at B&Q, expressed B&Q’s interest in providing a Green Deal “one-stop service”²⁵, and will be forming new partnerships and talking with Local Authorities about their role in the Green Deal. Earl commented that there is “an expectation from the government that private industry will just step up and deliver everything that it wants”, but that for private industries to take the associated risks then they will need assurance from the government “that the ground rules are in place”, otherwise private industry will not be able to respond appropriately but will rather be “gingerly finding its way forward”. The Confederation of British Industry (CBI) have expressed similar views. Deputy Director-General Dr. Neil Bentley commented that the Green Deal was “a surefire way of cutting emissions”, but that investors would need more clarity over how Green Deal

²² Decc (2010b, p. 19)

²³ *The Guardian* (8 December 2010), URL = <http://www.guardian.co.uk/environment/2010/dec/08/green-deal-energy-efficient-homes?INTCMP=SRCH>

²⁴ *The Daily Mail* (2 November 2010), URL = <http://www.dailymail.co.uk/sciencetech/article-1325862/M-amp-S-install-solar-panels-customers-homes-green-energy-drive.html>

²⁵ *Inside Housing* (10 September 2010), URL = <http://www.insidehousing.co.uk/need-to-know/housing-management/qa-the-diy-green-deal/6511588.article>

finance would work, and how it would be paid for²⁶. The CBI recently announced that their surveys showed only a quarter of movers are concerned with energy efficiency when considering a home²⁷.

Several energy companies have expressed an interest in the Green Deal, such as Scottish and Southern Energy²⁸, E.ON UK and British Gas. British Gas are planning to launch their own 'British Gas Green Deal' from Spring 2011²⁹, significantly pre-empting the first Green Deal offers. They will provide capital investment of up to £10,500 for services ranging from insulation to solar panel installation, with a payback period of up to 25 years. This would be a significantly larger investment than the caps suggested for Green Deal providers.

E.ON UK have developed a fund "which offers financial support opportunities to community groups and not for profit organisations that wish to pursue and implement sustainable energy measures", and provide "information about energy efficiency, micro-generation and other low carbon services"³⁰. In 2010 they also launched their Challenge 100 campaign to tackle fuel poverty. In their report they state "the Green Deal is the perfect opportunity to make a difference to families living in fuel poverty"³¹. They believe programmes such as CERT and CESP "aren't flexible enough to support those living in fuel poverty", that energy efficiency measures alone "aren't enough to take them out of fuel poverty", and that "community engagement, tailored to local needs, is critical to ensure take-up and involvement of vulnerable householders in energy efficiency schemes ... The

²⁶ ²⁶ *EST website (Industry News)* (17 February 2011), URL = <http://www.energysavingtrust.org.uk/Resources/Energy-saving-news/Moving-home-and-energy-efficiency/CBI-calls-for-clarity-on-Green-Deal-financing/%28energysavingtrust%29/822231>

²⁷ *Ibid*

²⁸ *The Telegraph* (11 October 2010), URL = <http://www.telegraph.co.uk/sponsored/earth/future-of-energy/8056728/Britains-future-energy-companies-keen-on-Green-Deal-says-Chris-Huhne.html>

²⁹ <http://www.britishgas.co.uk/greendeal.html>

³⁰ <http://www.eon-uk.com/sustainableenergyfund.aspx>

³¹ Paul Goby, foreword to E.ON UK (2010)

Government's approach to fuel poverty should encourage local authorities and energy suppliers to work together to deliver tailored and effective schemes"³².

A partnership of significant stakeholders released a joint statement³³ stating that the Green Deal had "great potential", but that it will "not be sufficient to drive significant participation". It will require "complementary fiscal incentives and other tools designed with human behaviour in mind, such as variable rates of council tax, stamp duty reductions, and a reduced VAT rate for retrofits through the Green Deal", and "minimum standards should be set for the least efficient homes in the private rented sector, and should take effect from 2016 at the latest, rather than the subject of a review as currently proposed".

Paul King, CEO of the UK Green Building Council (included in the above partnership), said that the Green Deal was a good way to tackle the demand-barrier of high upfront costs³⁴, but that there was a danger that high interest rates would remain a significant problem as it "put people off and will limit the number of energy efficient measures available to the householder". This view is expressed by many others, such as Simon WcWhirter, campaign director of the Great British Refurb Campaign (also included in the above partnership). He told the BBC that interest rates we predicted at around 6-8% per annum, but that their polls showed this was too high – only 6% of homeowners would take part. Ed Matthew, programme director for Transform UK, said that "the next six months will be critical"³⁵. Transform is campaigning for at- or close to- zero percent interest rates, using Green Investment Bank subsidies. Matthew, an expert in climate economics, argued that if the deal was not "financially attractive", and offered only at commercial rates, then he guaranteed "it will fail".

³² E.ON UK (2010, p. 52)

³³ *WWF, Great British Refurb Campaign, Federation of Master Builders, Green Alliance, Marks and Spencer, Uk Green Building Council, B&Q* (2010)

³⁴ *BBC online* (27 January 2011), URL = <http://www.bbc.co.uk/news/science-environment-12297538>

³⁵ *The Ecologist* (10 January 2011), URL = http://www.theecologist.org/News/news_analysis/708566/tesco_and_bq_join_interest_in_green_deal_to_insulate_homes.html

Dave Timms, Friends of the Earth campaigner, told the *Daily Mail* that he admired the Government's recognition of the PRS as needing special attention, but that the measures "look far too weak and could leave landlords and tenants confused about where they stand"³⁶, and he echoed criticisms that there should be a minimum standard of energy efficiency in homes, and to make it "an offence to let properties that are so badly insulated...until they are improved".

It was also recently announced that the Energy Saving Trust (EST) will be losing half of its funding from Decc in 2011-2012, largely as a result of the Green Deal legislation³⁷. It will be losing a third of its 300-strong workforce. A statement from the EST said that the disappointing news "does not come as a surprise", and that "with the Green Deal on the horizon the private sector will have a huge role to play". A Decc spokesperson commented that "the EST has a role to play" in the development of the Green Deal, and is "being funded accordingly"³⁸. The cuts of 50% represent a significantly larger proportion than the required departmental cuts to Decc of 33%.

The cuts represent a significant cost-saving tactic by the government – removing funds from public programmes and creating market-based green legislations which allow funding to come from the private sector. Director of the 10:10 climate change campaign Ben Margolis said that cutting the EST's budget "makes no sense and is a complete false economy". Meg Hillier, shadow minister for energy and climate change, said the cuts were "crazy" given that the Green Deal was unproven and remains so distant in the future³⁹. Green Party MP Caroline Lucas said that, given the current physical and economic environment, the cuts made "a mockery of this government's energy and climate change policy"⁴⁰.

³⁶ *The Daily Mail* (2 November 2010), URL = <http://www.dailymail.co.uk/sciencetech/article-1325862/M-amp-S-install-solar-panels-customers-homes-green-energy-drive.html>

³⁷ *The Guardian* (21 January 2011), URL = <http://www.guardian.co.uk/environment/2011/jan/21/energy-saving-trust-funding-cut?INTCMP=SRCH>

³⁸ *Ibid*

³⁹ *Ibid*

⁴⁰ *Ibid*

3. Other Domestic/Community-Based Energy Efficiency Schemes

- NESTA's 'Big Green Challenge' offers a £1mil prize, designed to "stimulate community-led responses to climate change"⁴¹. 355 communities registered in 2008, 100 of whom were selected to be given support, and a further 10 were shortlisted for the prize.
- EST's 'Green Communities' project, which "aims to support, facilitate and promote community-based energy projects"⁴².
- The Building Research Establishment (BRE)'s 'Community Sustainable Energy Programme (CSEP)' (part of the Big Lottery Fund's *Changing Spaces* campaign). £10.1mil in £5,000 development grants and £50,000 capital grants for installation of microgeneration technologies, along with energy saving measures and development studies that "help community organisations find out if a microgeneration and energy efficiency project will work for them"⁴³.
- The Sustainable Housing Action Partnership (SHAP)'s 'Community Green Deal'. Launched on 1 December 2010, it develops a model for "community-scale delivery of whole house retrofit"⁴⁴. It is intended as a "locally-based, area-wide response to the delivery of the Green Deal", and would deliver home retrofits to communities of between 750 and 3,000 homes.
- Transition Networks, who "support community-led responses to peak oil and climate change, building resilience and happiness"⁴⁵. They campaign for localism and devolved action in both food and energy security.

⁴¹ NESTA website (accessed January 2011), URL =

http://www.nesta.org.uk/areas_of_work/public_services_lab/big_green_challenge

⁴² EST website (accessed January 2011), URL = <http://www.energysavingtrust.org.uk/café>

⁴³ Big Lottery Fund (2010, p. 9), see also CSEP website, URL =

<http://www.communitysustainable.org.uk/>

⁴⁴ SHAP website (accessed January 2010), URL = <http://www.shap.uk.com/projects/shap10> – full report and companion guides available on SHAP website, URL =

<http://www.shap.uk.com/projects/shap10/Report>

⁴⁵ Hopkins and Lipman (2009, p. 7)

About The Environment Council

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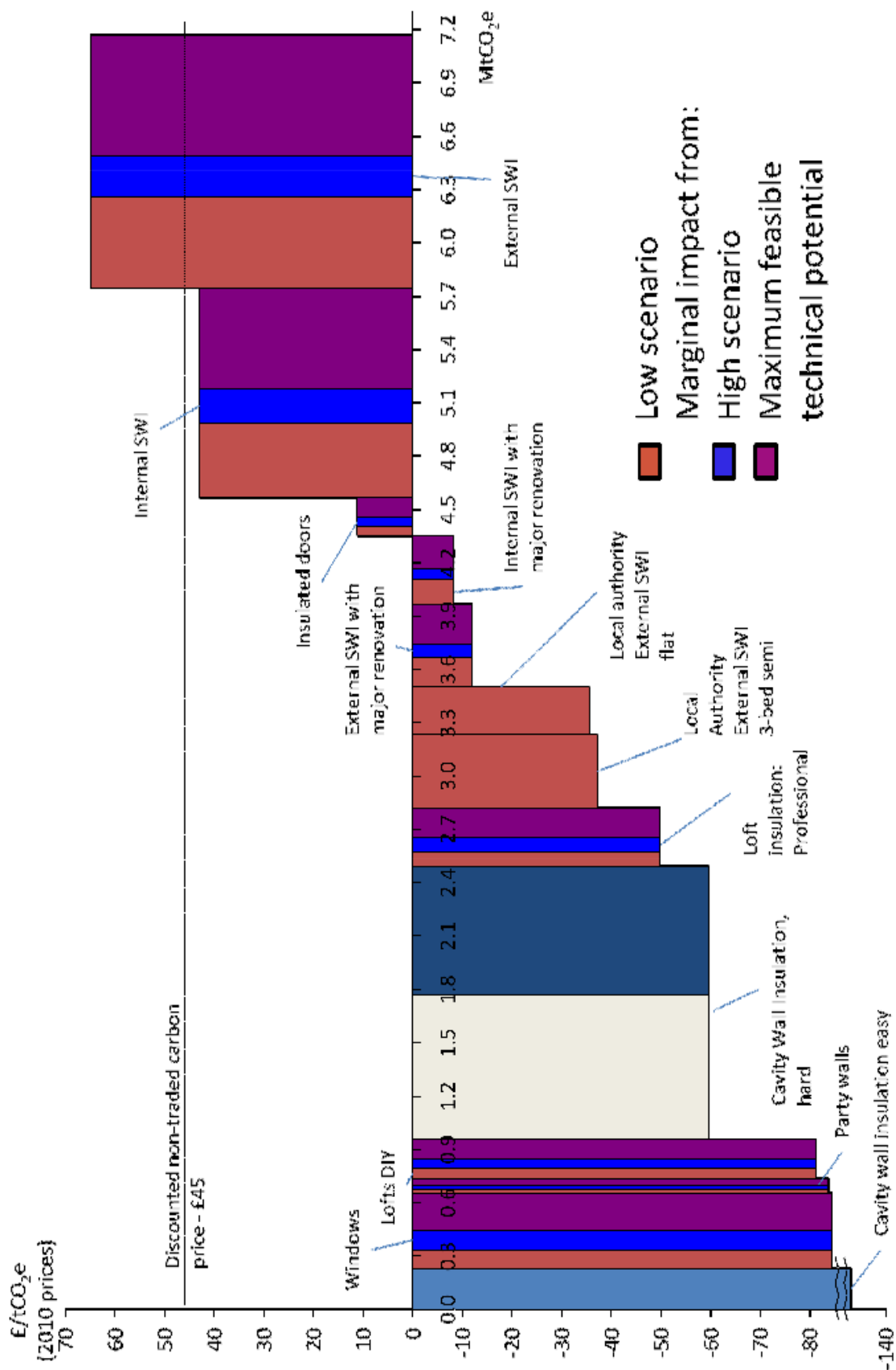
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If you would like to discuss this issue further then please feel free to contact us to find out how TEC can help to develop your role in the Green Deal.

Annex 1: Marginal abatement cost curve in 2020 demonstrating the additional level of carbon from each scenario

Source – Decc (2010a, p. 122)



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