Response to BEIS Call for Evidence – Green Deal Framework

22 November 2017

Introduction

UKGBC is a strong advocate of a pay-as-you-save mechanism to help drive take-up of energy efficiency measures by householders. But the implementation of the Green Deal was beset by a number of problems that severely limited its success. We therefore welcome this Call for Evidence, and are responding in the hope that the Green Deal can now be simplified and changed to become an attractive offer to consumers and help to support the Government's priorities as set out in the Clean Growth Strategy.

It will be helpful, before responding to individual questions, to summarise the main factors which we believe were responsible for the limited success of the Green Deal:

- The Green Deal was essentially a finance mechanism designed to obviate the need for upfront payment by householders for energy saving measures. However it lacked accompanying policy drivers to stimulate customer demand in the first place. UKGBC repeatedly advocated the need for additional incentives, e.g. variable rates of stamp duty and/or council tax.
- The customer journey was extremely slow and over-complex.
- Although the interest rate was broadly comparable with that charged for other unsecured loans, the Golden Rule limited the size of repayments so that they did not exceed savings on the energy bill, meaning that Plan repayments could extend for up to 25 years. It was this lengthy repayment period which was primarily to blame for the perceived unattractiveness of the Green Deal, as an APR of 8-10% over such a long period often meant that the total interest payable could equal or even exceed the initial amount borrowed.
- In the run-up to the Green Deal launch, the Government's stated intention was that the Energy Company Obligation (ECO) would be widely available to be 'blended' with Green Deal finance to enable more expensive measures to be funded than could be covered by the Golden Rule. In practice this hardly happened.
- As a result of all of the above, the Green Deal worked only for a small segment of the householder market – those on modest incomes, but not in fuel poverty. Middle- and higher-income households were put off by the constraints of the Golden Rule and the lengthy payback period that this engendered. For such households there were other available sources of finance that were both cheaper and more flexible.

We believe that a PAYS mechanism could have a strong future – as part of a wider policy framework, incorporating regulation and incentives – if our proposals below are adopted.

Green Deal Participants

1. What roles do you see in the future for the above Participants (Green Deal Certification Body, Green Deal Assessor, Green Deal Advisor, Green Deal Provider, Green Deal Installer)? Can any or all of these roles be fulfilled without the need for formal Green Deal status?

Green Deal Certification Body, Green Deal Assessor, Green Deal Advisor

The function of these three bodies is essentially to provide Green Deal Advice Reports (GDARs) and to ensure robust sales processes. It is our view that the GDAR has little or no additional value beyond that provided by an Energy Performance Certificate (EPC), in terms of providing householders with advice about possible improvements. We therefore believe that these three roles should be scrapped. A robust accreditation and certification structure already exists, which can be used to support the Green Deal. This works in the following way:

- the UK Accreditation Service (UKAS) provides accreditation for

- certification bodies, who in turn lodge EPCs and train and certify
- Domestic Energy Assessors (DEAs), who carry out EPCs.

Green Deal as a finance product for consumers is now managed by the Financial Conduct Authority (FCA) and therefore all introducers (credit brokers or appointed representatives) are required to have robust sales processes, thus protecting customers from any mis-selling. Therefore the Green Deal Assessor specification does not provide any additional protection to the customer and has become unnecessary.

Green Deal Installer

We believe that the Green Deal Installer (GDI) accreditation is no longer relevant and is confusing to householders. Consumers need simplification, and having multiple accreditation schemes does not help them to identify the right installers. Green Deal Providers and the Green Deal Finance Party (see below) should merely be required to use installers who hold PAS2030 certification for the appropriate technology.

Green Deal Provider and Green Deal Finance Party

As the market has operated hitherto, the Green Deal Provider (GDP) is *nominally* the lender of consumer finance under the scheme. However, it is in fact the Green Deal Finance Party (GDFP) who takes control of the consumer journey, documentation, affordability tests, ongoing customer communications etc. Therefore it is the GDFP who *de facto* operates as the lender.

For simplicity's sake, we therefore recommend that the GDFP is recognised as the lender, with the GDP operating as the credit broker. This gives much greater clarity to the FCA and also reduces the risk of stranded loans if a GDP ceases to trade.

As a credit broker the GDP will be responsible under the Consumer Credit Act (CCA) to provide robust sales processes and manage the installations. As a lender the GDFP will set the affordability criteria, manage the consumer journey and documentation throughout the entirety of the loan.

The Consumer Credit Act and Consumer Rights Act should provide sufficient protection against mis-selling, with ultimate recourse to the Financial Ombudsman.

2. What interactions and relationships need there be between different Green Deal Participants?

See response to Question 1. There would be two key parties, the GDFP and the GDP. The GDP would have a contractual relationship with the GDFP, and would be required to deliver customer journeys according to GDFP's instruction. The GDP would in turn work with DEAs and PAS2030 installers to deliver the necessary installations.

Green Deal Assessment

3. Is it necessary for all types of assessment to be carried out by professionals (i.e. authorised Green Deal Advisors, or a future equivalent)? Would some form of self-assessment (e.g. by consumers) be possible or sufficient? If so, what might need to be in place to enable this?

See response to Question 1. We recommend that the Green Deal uses an EPC, preferably produced by a DEA at the start of the Green Deal journey. The GDP and installer would then be required to undertake a technical survey in order to provide a quotation for the works.

4. In their current form, are GDARs necessary, or helpful to Providers and consumers? What outputs might lenders need in any future scenarios?

See response to Question 1. We do not believe that GDARs provide any added value over and above the EPC and should therefore be scrapped.

5. What value do In-Use Factors have? Do they achieve the aim of increasing consumer confidence and protection for consumers? Do they help lenders with confidence?

Our response to this Question should be read in conjunction with our fuller response to Question 12 about the Golden Rule.

In-use factors were introduced as a short-term mechanism to address a number of issues around quality, installation and occupation. The intention was that they would ensure that the anticipated savings would not be overstated. In light of the introduction of PAS2030 we believe that these in-use factors are no longer necessary. Furthermore they reduce the amount of finance a customer can obtain under Green Deal and in turn have a detrimental impact on uptake.

Green Deal Measures

6. How might the process for incorporating new measures be made more efficient, and help enable the deployment of innovations and new technologies?

The range of available energy-saving technologies is expanding all the time. This makes it inappropriate to set out eligible measures in secondary legislation, which cannot be changed quickly.

This problem could be addressed in a number of ways. For example, a list of eligible technologies could be set out in a revised Code of Practice, which could be updated regularly as technologies evolve. The Code of Practice could also list the installation accreditations required. Alongside this, the EPC recommendations report would need to be able to recommend new technologies such as batteries and Electric Vehicle Chargers (EVCs).

An alternative approach would be to move to an outcome-based approach, whereby outcomes for consumers are specified, rather than a particular measure or suite of measures. This approach would be technology-agnostic and would allow the industry to assess the best way of achieving the desired outcome for the householder. GDPs would then need to offer performance guarantee contracts and ongoing monitoring to ensure the outcomes are achieved.

7. Is it better to have a list of qualifying energy efficiency improvements in secondary legislation or should the legislation just set out high-level principles (with the Standard Assessment Procedure – SAP – helping to determine whether an improvement falls within the principles)?

See response to Question 6. The legislation should set out high-level principles only, supported by a Code of Practice (or guidance) published separately and updated regularly.

8. Are there alternative ways to determine what measures could be installed and funded using the PAYS mechanism, which would help enable the deployment of innovations and new technologies?

The current scheme is inflexible in the measures that it allows. Limiting the measures constrains access to innovations and new technologies.

The policy intention of the Green Deal is to reduce carbon emissions and allow homeowners to take control of their energy use. These should be the criteria for the measures allowed. The Green Deal could be extended to have a wider remit than simply energy efficiency improvements. Its remit could, for example, extend to reducing the total household cost of energy through products such as battery storage and demand response technologies. We should be focusing on where we need to be in 2050 rather than what we can install today.

9. What do you see as the merits of including the above measures (battery storage linked to microgeneration; connections to existing heat networks; replacement of condemned boilers) in the Green Deal? Do you have any comments on whether they meet the criteria for measures?

See our responses to Questions 6 to 8. We agree that these technologies should be included, but do not believe that this should be an exhaustive list of technologies. In short, all technologies which protect consumers from rising energy costs and which enable them to manage energy use in the home should be included.

Consumer confidence, protection, and redress

10. Could the system which provides consumer confidence, protection and redress be managed differently? For instance, do other existing general consumer protections, such as those available to consumers under the broader consumer credit regime, provide alternatives? Can you foresee developments resulting from the implementation of the Each Home Counts recommendations as offering scope for change?

See our above responses. In short, since the launch of Green Deal in 2012/13 consumers have benefited from the movement of the CCA to the Financial Conduct Authority and from the enactment in 2015 of the Consumer Rights Act (CRA). Both of these instruments provide robust consumer protection, and eliminate the need for the Green Deal Framework to reinvent the wheel.

11. Does the disclosure of a Green Deal Plan to prospective homeowners or tenants have to be by means of providing an Energy Performance Certificate? What alternatives exist?

We believe that the EPC is the right mechanism for disclosing the existence of a Green Deal Plan. We would recommend that the EPC merely state that a Green Deal Plan exists, indicating that finance is being borrowed against the electricity bill for a specified period. It should then direct a prospective homeowner or tenant to the current electricity bill payer, who would be obliged to provide full details of the Plan.

12. Where consumers wish to make a number of improvements but not all meet the Golden Rule, are there any ways of better facilitating this?

Currently the Golden Rule means that only a few energy saving measures can be fully funded by the Green Deal, e.g. loft insulation and heating controls. Most measures require additional cash funding from the customer.

Although the original intention behind the Golden Rule – that repayments should not exceed the savings – was laudable, the evidence points to its putting a brake on the delivery of optimal energy savings in the home. The cap on the amount that can be lent means that the consumer has to find additional finance from other sources in order to pay for most measures. This seriously reduces interest in the Green Deal on the part of consumers, who have to make a financial evaluation across two loan products and then take out two loans for one measure.

For the Green Deal to be really successful, the Golden Rule needs to be removed. Green Deal Providers would then be able to offer consumers the choice of paying for measures over a shorter period if they can afford a higher level of repayments; or over a longer period if they can't.

It should also be made possible for an electricity bill payer to overpay the loan, thus reducing the term of the loan and total cost of finance. However, if the bill payer changes, the loan would revert back to the standard amount for the rest of the term of the loan.

13. Do you have any other comments on these elements of the Framework? Are there any ways in which they could be re-organised and improved, without any detriment to the consumer?

See responses to previous questions.

14. Are there changes that could be made to the Framework to make it more accessible or attractive to landlords and tenants in both the private rented and social housing sectors?

We recommend the reintroduction of the Landlord Energy Saving Allowance (LESA) to incentivise landlords to make energy efficiency improvements to their rental properties. We would also welcome the introduction of a Total Cost of Occupancy which should be displayed alongside rental costs to make energy efficient properties more appealing to prospective tenants.

Authorisation and certification of parties

15. Do you see a need for specific Green Deal authorisation and accreditation? What role might parties involved in this play in the future?

See response to Question 1.

Other elements of the Framework

16. We would welcome comments on any of the above elements of the Framework (Green Deal Plan, Green Deal Oversight & Registration Body, Green Deal Arrangement Agreement, Green Deal Register Service and Green Deal Central Charge Database), and whether there is any case for a change in arrangements and the feasibility of making any such changes.

Of these five elements, only the **Green Deal Central Charge Database (GDCC)** would still serve a useful function if our proposals were adopted.

17. We would welcome any views on the administration fee, including on the amount, and whether this is the most appropriate way of compensating suppliers for the costs and collecting of the Green Deal charge.

Currently a daily fee of 1p per Green Deal Plan goes to the supplier. This complicates the loan (making it difficult for consumers to compare with other financing options) and is insufficient to compensate suppliers for managing the Green Deal. We therefore propose that the daily administration charge be dropped entirely, and that Green Deal become an obligation for suppliers to deliver without compensation.

Any other issues

18. Are there factors that we have not identified that you believe will, or should, influence the future of the Framework? How might they influence it?

No response.

19. Are there any other opportunities to improve the Framework, not covered by the above?

No response.

20. Are there any aspects of the Framework you wish to comment on specifically in relation to non-domestic usage of the Green Deal, not covered above?

Although there may be a future for a non-domestic Green Deal, we feel it is premature to consider this at this stage. The focus should be on getting the Green Deal to work first for homes.

UKGBC
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