



Briefing 12/30 July 2012

Developments in the Green Deal

To: All contacts in England, Scotland, Wales and Northern Ireland

Key issues:

'Pay as you save' model funds investment in energy efficiency works

Role of local authority and social landlords highlighted

Significant impacts expected on housing stock, energy bills and those suffering from fuel poverty

1. Introduction

DECC has this week set out the secondary legislation that will give industry the green light to bring the Green Deal energy efficiency market into operation, alongside measures to strengthen consumer protection and reduce industry burdens and introducing a new, improved energy company obligation (ECO).

In addition to setting out the parts of the framework that are already in place, announcements give clarity to the market by detailing next steps to getting Green Deal and ECO rules set by October 2012, including, in legislation, ensuring support worth around £1.3bn a year to deliver energy efficiency and heating measures across Great Britain to help tackle fuel poverty and climate change.

It is estimated that an increased focus on poorer areas should see an extra 100,000 households in low income areas benefitting each year, compared to original proposals, bringing the total number of low income households and those in low income areas assisted to around 230,000 a year.

DECC has produced a document called 'Local authorities and the Green Deal' and is found [here](#). This briefing reproduces some of the content from that document.

2. What is the Green Deal?

The Green Deal is a new finance framework that will provide householders and businesses with the upfront capital to carry out energy efficiency improvements to their properties and repay through their energy bill. This will be achieved by attaching a Green Deal charge to the electricity meter at the property concerned with the protection of the Green Deal "Golden Rule", that is, any charge attached must be less than the expected savings from the retrofit. There will be no upfront cost. These are fundamental components of and demand-drivers for delivering the Green Deal. Another innovative aspect of the proposals is that the responsibility for repayments is attached to the property's energy meter rather than the householder or business – meaning that it is passed on to the next tenant when the current incumbent moves on.

The Green Deal can be provided by local authorities, commercial companies and social enterprises, acting alone or in partnership. Central to the Green Deal is a finance mechanism that will allow access to the finance needed for the improvements with repayment, in instalments, attached to the electricity bill.

Underpinning the delivery of the Green Deal is the ECO. ECO will place one or more obligations on energy companies requiring them to generate a specific amount of credit by facilitating the installation of energy efficiency measures in homes in Great Britain before a set deadline. ECO has been designed to fit within the Green Deal framework and provide support, in the domestic sector, where Green Deal finance alone is not enough.

The Green Deal can be taken out by either the landlord or the tenant. However, it is envisaged that tenants will not be able to attach a Green Deal to a rental property without the consent of their landlord. Likewise, it is envisaged that the landlord will need to gain the consent of a sitting tenant in order to attach the Green Deal charge to their electricity bill. With this in mind it may be more appropriate for landlords to take advantage of void periods to take out the Green Deal. However they are responsible for paying the energy bill and Green Deal charge during void periods. If the tenant defaults the responsibility will not pass on to the landlord it will remain with the person responsible for the energy bill. No final decision has yet been arrived at regarding flatted accommodation.

3. The Green Deal and Energy Company Obligation

The intention of the Green Deal and Energy Company Obligation (ECO) is to empower consumers and give them new ways of funding energy efficient home improvements, thus creating a new market which could draw in overall greater funding for energy efficiency than in the past. This should help reduce carbon emissions from the domestic and non-domestic building stock, which is essential if the UK is to meet its statutory domestic carbon budgets. Improving household energy efficiency is also a key strand of the strategy to help address the needs of low income and vulnerable customers from 2012 and to make further progress towards tackling fuel poverty. In addition, energy efficient buildings reduce energy use and demand on fossil fuel.

The key to whether a measure, or package of measures, is actually financed through the Green Deal is the 'Golden Rule'. The expected financial savings resulting from installing measures must be equal to or greater than the cost of repayment over the term of the Green Deal Plan. The repayment period may be the lifetime of the measure or a specified "pay-back" period. If the estimated annual saving is expected to be equal to or greater than the expected annual repayment costs, the Green Deal "plan" can be said to meet the Golden Rule and can go ahead. The Green Deal Provider should have the flexibility to vary costs to produce the best offer for the customer. For certain measures an extra upfront subsidy could be sought - via the new Energy Company Obligation, in a qualifying case. Alternatively a householder could choose to pay a top-up to bring down the repayment cost. For example, External Wall Insulation can pay for its self in 30 years based on an installation cost of £7,600. With a subsidy, the repayment period could be significantly reduced and brought within usual finance periods of 20 to 25 years.

4. Local authorities and the Green Deal

In terms of benefits the Green Deal will provide an opportunity to significantly improve the energy efficiency of local homes and businesses. In the process, with millions of British properties requiring insulation, the Green Deal offers an opportunity for local authorities to help drive economic growth, unlocking billions of pounds worth of investment and supporting thousands of jobs. Insulation installers, manufacturers and others in the supply chain, including many small businesses, all stand to potentially benefit.

Potential benefits to local authorities are likely to be:

- new sources of revenue to deliver energy efficiency retrofits;
- help to reduce fuel bills for local residents and businesses;
- opportunities for local economic and physical regeneration;
- support for wider local strategic priorities (better health outcomes, reduced fuel poverty);
- support for the maintenance and generation of local jobs and skills.

5. Promotion

Local authorities and social landlords have an important role in championing the Green Deal locally, helping residents and businesses to realise the benefits through working with the local community to generate interest and take-up, taking opportunities to engage local people and bring communities together to improve cost effectiveness.

In particular local authorities can link up to wider strategic priorities and funding streams e.g. through health, education and regeneration agendas as well as drawing on established local networks, partnerships, businesses and partners. They might decide to either provide the Green Deal directly to their local residents and businesses, co-ordinating finance and delivery; partner with commercial Green Deal providers and community partners to deliver and facilitate delivery; or promote by acting as advocates for the Green Deal locally.

6. Preparing for the Green Deal

Local authorities will need to consider a number of issues when deciding what role/s they might play in delivering the Green Deal. Some relevant questions are found below.

Local strategic planning/synergies

- How can Green Deal help deliver and support your local strategic objectives?
- Can it be coupled with other environmental objectives in your area?
- What are the opportunities to link with other energy efficiency, fuel poverty or regeneration schemes e.g. different schemes are available in Scotland and Wales?
- Do you have planned maintenance, refurbishment or regeneration works in the coming year/s that might provide synergies with the delivery of the Green Deal?
- Are there opportunities to roll out Green Deal on a community wide, street by street basis? There are many examples under the Community Energy Saving Programme (CESP) where this has proved cost effective.
- Are there opportunities to utilise other national programmes e.g. Feed in Tariff and Renewable Heat Incentive?
- Are your key local stakeholders and businesses aware of the opportunities the Green Deal might provide?
- Are local councillors (and where appropriate the Local Enterprise Partnership) aware of the opportunities?
- Who in the authority needs to know about the Green Deal e.g. what are the financial and legal implications, what planning issues might there be?
- Are there incentives (financial or non-financial) that the authority might offer to help drive Green Deal demand?
- Who in your area might benefit the most from improvements in energy efficiency?

Housing stock data

- Do you have a good understanding of the condition of local housing stock and the households for whom Green Deal packages might be most appropriate, including on occupancy and tenures?
- Do you have a local strategy to stimulate interest in and promote the take up of energy efficiency measures?

Potential partners & local supply chains

- Does your DLO have the skills, capacity and experience to deliver the Green Deal as installers?
- Do you have existing partnerships that you can draw on to deliver the Green Deal e.g. relationships developed under CERT & CESP?
- Who are the key local community organisations that you might partner with e.g. to help engage households?
- The major energy suppliers will deliver the future ECO (which replaces CERT & CESP) which will support many Green Deals, is it worth discussing their plans and local opportunities for these with them at an early stage?
- Is there a local supply chain with the necessary skills to deliver the Green Deal – what are the opportunities to create local jobs?
- What procurement requirements might be necessary to deliver the Green Deal locally e.g. the scale of work might dictate specific requirements?

- What can you offer commercial Green Deal partners, what are the benefits of them working with you e.g. do you have potential 'ready to go' projects?
- Are there opportunities to work with other councils, social housing providers and/or community groups?

Finance

- What are the benefits to you of financing a Green Deal scheme in your area?
- What are the different financing options available?
- Depending on how you might want to deliver the Green Deal what are the financial/resource implications?
- Are there State Aid issues which might need to be considered?

7. Comment

APSE welcomes the general approach of the Green Deal, namely to address energy efficiency in buildings with an innovative financial approach. The main problem with getting this type of scheme off the ground has been to encourage owners to invest up front when payback may take many years. This scheme addresses this issue in part and should incentivise many to invest in their properties.

Councils and social landlords are well-placed to play a key role within Green Deal as they manage large numbers of properties and so can offer economies of scale as well as having experience of undertaking major capital schemes including energy efficiency works with a skilled and experienced workforce used to working in occupied homes. They also have a natural market with their sitting tenants, high levels of trust and engagement as well as local visibility.

There are opportunities for jobs growth within this sector which is an issue APSE has been highlighting for some time. The policies are predicted by the DECC to increase the number of jobs in the insulation sector from 26,000 to 60,000 by 2015. The accuracy of these estimates remains to be seen but there is certainly room for growth in jobs. Legislation will provide support of about £1.3 billion a year to deliver energy efficiency and heating measures.

Social landlords will be rightly concerned about warranties and guarantees regarding products and measures. A Green Deal code of practice is being drawn up for providers and installers which will clarify standards and a verification process for performance. A Green Deal authorisation scheme is also being developed for installers.

There have been recent examples of schemes where the financial business case for investment in renewables has been shown to stand up without the need to take on a commercial partner. If this is the case, it can be an ideal scenario for the local authority or social landlord as it means they are able to retain control of the programme, maximise community benefits and local economic spin offs and ensure it complements other programmes.

Although Green Deal and the wider renewables and energy efficiency agenda remain new territory for many, there are numerous examples of successful projects undertaken by local authorities and social housing providers. Those who have been slower to this agenda should be encouraged by the success of others.

Although the Green Deal appears to be a worthwhile programme, getting sign up from individuals, social landlords and companies can often be more difficult. The incentives are attractive, especially those aimed at supporting more difficult work such as hard to treat cavity walls, but government must be willing to put sufficient resources to promoting and marketing the scheme especially as it addresses a number of wider policy objectives.

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Appendix A

Potential local authority models for delivering the Green Deal

Local Authority as a Green Deal Provider - Local authorities might raise finance themselves (sources include PWLB or commercial sources) either individually or in a consortia to deliver the Green Deal locally. Benefits of such a model could include:

- control over strategic planning and local delivery to address specific local priorities;
- ability to reinvest revenue streams into other local projects;
- direct delivery through local supply chains, creation of local training and employment opportunities.

For example Birmingham City Council (BCC) is exploring a model consistent with this approach and is currently procuring a Delivery Partner to manage delivery, market the programme, engage customers and sell measures, survey, assess, refurbish and maintain properties, and manage supply chain growth and innovation. It is anticipated that BCC will provide up to £75m for an initial Pathfinder Programme (expected to last approximately 3 years) with significant potential further investment through the future energy company obligation.

BCC's 'contract notice' names 22 local authorities, 9 registered social landlords and 3 other public authorities who have expressed an interest in using the services of the Delivery Partner once appointed. Together this has a potential contract value of £1.5bn.

Local authority as a Green Deal partner - Local authorities might look to form partnerships with one or several commercial Green Deal providers to deliver to their local residents and businesses. This approach might be similar to the relationships many councils already have with energy companies to deliver CERT and CESP schemes.

Benefits of such an approach include:

- retaining an influence over how Green Deal is delivered to local residents and businesses;
- the ability to draw in significant new sources of finance to the local area;
- providing reassurance to local residents and businesses on delivery of Green Deal to maximise take up.

For example Greater Manchester (GM) is already running a social housing scheme in conjunction with existing CERT and CESP offers that is seeking to test elements of the Green Deal process and how this might work for local residents. This includes a free loft and cavity insulation offer for households in all tenures which will help to engage households, coupled with a consistent approach to resident engagement as set out in the GM behavioural change report 'The Missing Quarter'. Strong networks between GM local authorities, social housing providers, contractors, SME's and colleges are also being developed to build a skilled, competent supply chain, ahead of the introduction of the Green Deal.

Local Authority as an advocate for the Green Deal - A local authority may facilitate and/or support commercial Green Deal provision its area, for example perhaps acting as a conduit for local commercial activity and/or providing leads on a commission basis.

Benefits from this approach might include retaining an overview of how Green Deal is being delivered and contributing to local priorities. However, the ability to influence local employment opportunities and links with other strategic objectives may be more limited.

General

These models are not mutually exclusive. Councils might adopt one, all, or part of these approaches to deliver the Green Deal. Other innovative models for delivery may also be developed. DECC is aware of many councils across the country who are already starting to scope the Green Deal, with examples of work with adjacent authorities (e.g. across whole counties) and local delivery partners including Local Enterprise Partnerships and social enterprises.

You may wish to note that the Energy Saving Trust plans to publish a report shortly that considers several models of local authority financing of energy efficiency programmes based on existing best practice.

Appendix B

Measures covered by The Green Deal

Heating, ventilation and air conditioning - condensing boilers; heating controls; under-floor heating; heat recovery systems; mechanical ventilation (non-domestic); flue gas recovery devices.

Building fabric - cavity wall insulation; loft insulation; flat roof insulation; internal wall insulation; external wall insulation; draught proofing; floor insulation; heating system insulation (cylinder, pipes); energy efficient glazing and doors.

Lighting - lighting fittings; lighting controls.

Water heating - innovative hot water systems; water efficient taps and showers.

Microgeneration - ground and air source heat pumps; solar thermal; solar PV; biomass boilers; micro-CHP.