The Green Deal is an ambitious policy. But it may fail to deliver on its promise and could damage recent gains in household energy efficiency

The government's Green Deal is set to roll out later this year. **Trewin Restorick** *argues that although the scheme takes a novel approach in financing houshold energy efficiency, the fundamentals of the model are rightly being questioned and the scheme may fail to deliver.*

This is the seventh article in a series on climate change and environmental policy being hosted by British Politics and Policy at LSE.

I am sure David Cameron already has the speech outlined in his head:

> *"Thanks to our Green Deal 14 million households in the UK are warmer and cosier. We have drastically slashed carbon emissions and created 130,000 new jobs. This is sustainability in action reducing fuel poverty, stimulating the economy and moving the UK to a low carbon society."*

The question is – can the Green Deal deliver? The government has big expectations and has taken a drastically different approach to the previous administration.

The New Labour Approach

Under Labour the obligation for helping us to stop energy leaking needlessly from our homes was firmly placed at the door of the energy companies. Perplexed householders, unaware of this arrangement, wondered why energy efficient lightbulbs and smart meters arrived unrequested from their energy provider. They couldn't understand why an energy company would be offering loft insulation at vastly discounted rates. With mistrust of energy companies already deep in the national psyche most people were suspicious.

The approach clearly had flaws – not least of which was how the companies were allowed to account for the carbon savings they were meant to achieve. Just because households were sent an energy efficient bulb didn't mean they used it – but the companies were allowed to assume the carbon savings anyway.

Gradually, government got smarter at regulating and recently there has been rapid growth in insulation initiatives. Ironically, just when things have started to improve and the insulation companies are at or above capacity – the plug will be pulled, the schemes will stop and the Green Deal will be announced to a huge fanfare.

This abrupt change of policy will have significant implications. The UK has 3.2 million cavity walls which are easy and cheap to insulate. A recent report by the Association for the Conservation of Energy calculated that the change will mean that by 2022 only 1.7 million of these will be insulated. It also warns that a sudden drop in activity will damage the industry's growth, affect fuel-poor homes and fail to meet UK emission targets.

A new emphasis

The new Green Deal has a fundamentally different starting point. The obligation to act will rest with households rather than energy companies. Homeowners will be able to take out a loan for energy efficiency measures. These loans will be paid back out of the savings that the householders achieve on their energy bills. The ‘golden rule’ is that the cost of the loan can’t exceed the value of energy savings achieved.

Operating within this ‘golden rule’ means that households will be able to gain all the benefits of a warmer, cheaper home without any of the up-front costs. If the homeowner moves the loan remains with the house meaning that the new owner will continuing repaying the loan out of their electricity bills.

The government is convinced that this no up-front cost approach will create a surge of activity around energy efficiency. Early research suggests that the concept is supported in principle with research participants showing a strong interest in the energy and carbon saving and the general environmental benefits of such a scheme.

Does the Green Deal Add Up?

The government is certain that companies such as B&Q will see a massive marketing opportunity to sell more stuff and will pump large sums into marketing. Believing that this private sector spend is waiting to be unleashed the government has already slashed funding to quasi-public bodies such as the Energy Savings Trust on the assumption that their services will no longer be required.

Are they right? Certainly companies are circulating like bees around a honey pot. Already a number such as British Gas, E.ON, B&Q, HSBC and Goldman Sachs have been brought together by PWC to create a unique not-for-profit finance company that will ensure that low-cost finance is available to pay for the Green Deal loans.

This new company was created because it was feared that if loans were priced at existing personal loan rates only basic energy efficiency measures could be funded without breaking ‘the golden rule’ limiting the effectiveness of the scheme. Experience in Germany suggests they are right and highlights the fundamental flaw in the approach.

Early research indicates that once the loan has been repaid from the electricity bill households would typically only see annual savings of up to £30 on their energy bills. For many this level of return would not compensate for the disruption and hassle created through the installation of the energy efficient measures.

Payback periods of over 10 years were seen as far to long to people and viewed as something akin to a mortgage. People were worried that during this length of time some products could become outmoded or breakdown before they had finished paying for them. Others felt it was unfair that the repayments would be passed onto new owners of the property and were worried that it would affect their ability to sell.

With this degree of skepticism coupled with the complexity of the financing mechanism there is a need for a sophisticated, yet simple awareness campaign. Currently DECC is highly reticent to invest in such a campaign believing that instead it will be delivered by companies seeking to benefit from the initiative. This is a high risk strategy. There is a danger that messages will be fragmented, consumers will be wary of the validity of the claims due to vested interests, and vulnerable households facing fuel poverty could be ignored in the rush to hit high value consumers.

What now?

With questions being asked about the fundamentals of the finance model, the government faces a dilemma. It could stick to its guns and hope that companies will leap into the space with large marketing campaigns and incentive schemes. This is clearly their desired position but it is high risk. Global Action Plan’s expectation is that as concerns mount this ‘steady as you go’ strategy will start to erode in a number of ways.

Firstly, we anticipate that government will start to invest in a generic marketing campaign with centrally endorsed materials. This will seek to build consumer trust in the brand and give some consistency to the messaging. Secondly, government will start tinkering with the basic financial model. It could start to link stamp duty and council tax to household efficiency levels. It might cut VAT on energy efficiency levels to 5 per cent to boost up-take or it could create incentives to encourage early adopters.

In summary

The Green Deal has massive ambitions and if delivered effectively could provide significant environmental, social and financial benefits to the UK. Currently the jury is out on whether it will deliver. What is certain is that the abrupt change of policy will significantly hit the UK's insulation sector and as a result a growing programme of activities benefiting households' through-out the UK will suddenly cease.

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Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.

About the author

Trewin Restorick *is the CEO of award winning environmental charity Global Action Plan, which runs programmes to reduce carbon emissions, energy use and waste with businesses, schools, and communities. Trewin sits on the Defra Third Sector Advisory Board and is a trustee for Sustainability and Environmental Education. He is one of Al Gore's UK Climate Change Ambassadors and a frequent media commentator on environmental issues appearing on Channel 4 News, Sky News, BBC Breakfast.*

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