

January 2011



Friends of
the Earth

Energy Bill

Briefing

The Green Deal

Summary

The Government's Green Deal is the centre-piece of the Energy Bill, currently making its way through Parliament.

Under the Green Deal householders and businesses will be able to take out loans to improve the energy efficiency of their properties, with the loan repayments made from the savings on their energy bills.

The Green Deal has been heralded by Chris Huhne, the Climate Change Secretary, as "a revolution.. the most ambitious energy-saving plan ever put forward. A once-and-for-all refit that will make every home in Britain ready for a low-carbon future."¹

It is very difficult to see how, with what we know about the Green Deal, it can support such a claim. It won't deliver whole-house retrofits, it won't work for many millions of fuel-poor households, and it is no substitute for a comprehensive strategy.

Certainly if the Government makes sure some critical components of the Green Deal work properly, then it *could* have a sizeable role to play in cutting carbon from *some* of the UK's homes. But the Green Deal has fundamental limitations as a mechanism.

All of this means that even working well it is only ever likely to be attractive to:

- People that can afford the repayments on the loans – those who are not in fuel poverty
- People who would need to take out a loan – those with spare cash who haven't invested in energy efficiency already are unlikely to want to take out a loan to do so
- People in relatively easy-to-improve homes

In this briefing we outline why the Green Deal is only ever going to be at best a partial solution.

The bigger picture is that a real strategy is needed which delivers whole-house, street-by-street retrofits to **eliminate fuel poverty once and for all** and properly **overhaul homes to make them fit for the future.**

The Green Deal is not such a strategy, but done well it could form part of one.

What is the Green Deal?

The Green Deal is the Government's flagship policy on energy efficiency. Under the Green Deal householders and businesses will be able to improve their homes at no up-front cost. They'll be

¹ http://www.libdems.org.uk/news_detail.aspx?title=Chris_Huhne:_Green_Deal_will_be_a_revolution_&pPK=88186f4a-e1d5-4b34-9fc9-83cff3bf195d

offered loans which will be repaid directly from their energy bills. So, for example, a homeowner could install cavity wall, door and loft insulation at a total cost of £1,000. This could cut their energy bill by more than the repayments on a loan:

Illustrative figures, based on figures provided by DECC, modelled by Friends of the Earth				
Cost of installation	Interest rate	Annual repayments	Annual energy bill (today's energy prices)	Actual savings per year
Cavity wall, door and loft insulation £1,000	7% for 10 years	£137	Reduced by £267	£130

The Government says that the principle that energy bills should go down by more than the loan repayments is its **golden rule**. No loan should be taken out if it doesn't meet it: that means that more expensive installations like solid wall insulation that will take much longer to repay are less likely to be suitable. This largely depends on the rate of interest charged on the loans – the lower the rate of interest, the more affordable are the repayments. The Government does not intend to regulate to keep the cap low, despite strong evidence that only very low interest rates will be of interest to householders.

Will the Green Deal succeed?

There are three tests for the Green Deal:

- (1) *Effectiveness*: will it deliver whole-house, street-by-street overhauls of the nation's homes?
- (2) *Attractive deal*: will the Government keep interest rates low? Will there be the right balance of sticks and carrots to make taking it up an attractive choice?
- (3) *Fairness*: will it work for the fuel poor, or hard to treat homes? If not, what else is needed?

Effectiveness?

Overhauling housing is also desperately needed to cut the UK's **carbon emissions**. Over a quarter of UK emissions come from homes. Tough new rules for the efficiency of *new* housing come into effect in 2016, but the real priority is closer to home – 80 per cent of 2050's homes are standing today.

The Green Deal will not deliver to the extent or ambition required, and the Government does not have a broader, decent strategy to end fuel poverty and slash carbon emissions. There are not even any targets or expectations for the Green Deal itself: it has been presented to Parliament with most of the crucial details on *how it will actually work* left blank.

Radically decarbonising our homes will cost far more than the Green Deal could ever provide. Estimates vary as to how much money is needed – the Energy Saving Trust, for example, say at least £85bn². The Green Deal could make a dent in this figure: on paper, if half of all of the measures that the Green Deal could support are taken up by householders, over £20bn could be spent³. But that won't happen with the kind of interest rates the Green Deal is likely to deliver – and even that amount isn't anywhere near enough.

If the Government is serious about energy efficiency, it needs to do better. **Friends of the Earth is asking MPs and Lords to back amendments to the Energy Bill to commit to producing a strategy for decent homes – which ends fuel poverty and actually delivers carbon cuts from**

² <http://www.energysavingtrust.org.uk/business/Global-Data/Publications/Finance-and-Ownership-Model-for-low-carbon-homes-presentation>

³ Friends of the Earth analysis based on DECC Green Deal Impact Assessment <http://www.decc.gov.uk/assets/decc/legislation/energybill/1002-energy-bill-2011-ia-green-deal.pdf>

homes at least in line with the national carbon budgets.

We think that means:

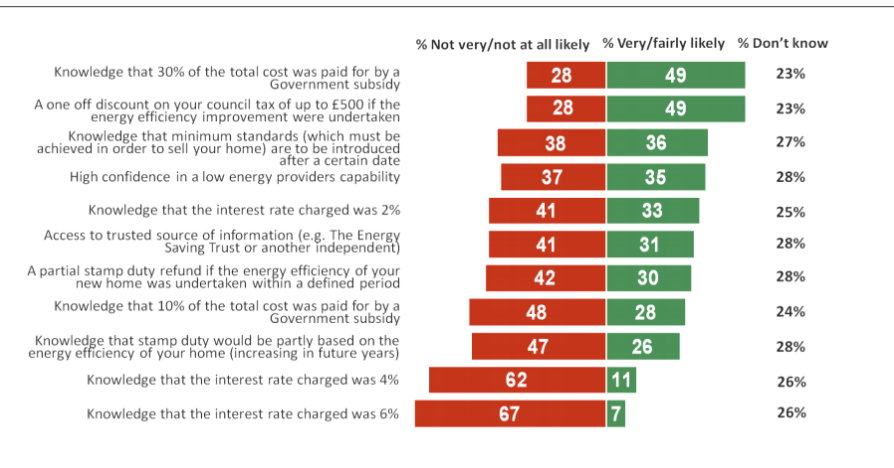
1. Ensure that at least one third of the housing stock (seven million homes in England) will have its carbon emissions cut by at least 60 per cent by 2020, and
2. End the worst housing. No-one should have to live in a home of such low energy efficiency that it forces them to suffer in poor health and from fuel poverty and high bills.

An attractive deal?

The Government says in its summary documentation that “keeping financing costs to the absolute minimum will be fundamental to the Green Deal’s success”. But it is very relaxed about how it will ensure that consumers are offered an attractive financial package, only hoping that it will be less than current market rates of about 11%. To be clear: 11%, or anywhere near it, is far too high to succeed.

Question: And thinking generally about if the energy efficiency work carried out on your home made a net saving of £100 per year (after the PAYS charge has been deducted), how likely, if at all, would you be to purchase and install the energy efficiency package, if the following incentives were offered?

Base: 2,301 UK adults aged 18+, online by YouGov, 2nd - 4th August 2010



Research by the Great

British Refurb⁴ (see table above) shows that only interest rates of 4 or 2 % per year are of interest to significant numbers of people. Higher interest rates – ‘just’ 6 per cent – put people off. Keeping interest rates ultra-low is also the only way to make sure the more expensive installations such as solid wall insulation have a chance of being paid for as part of a Green Deal package. That’s not good enough because what we really need are whole-house retrofits, not just the low-hanging fruit.

That will be expensive - realistically at least £10,000 per house, rising significantly for hard to treat homes. Analysis from climate finance experts E3G⁵ shows that at today’s energy prices only interest-free loans will be attractive enough, and can make the economics work, to deliver that kind of investment. Letting the market set interest rates is a recipe for a damp squib.

Trust in the quality of the Green Deal provider and those doing the work is another important factor. A welcome element of the proposals is accreditation: installers will be certified and a standards framework is promised that will “ensure... consumers can expect the same level of consumer care and protection regardless of the installer”. But trust would be further boosted by an active role for **local authorities**, who are trusted by citizens and closest to communities and businesses. If the Government ensures councils can be central to the Green Deal, local authorities can help coordinate street-by-street take-up implementation of the Green Deal and other energy efficiency improvements, and generate big economies of scale. Locally-coordinated energy efficiency programmes are 20 to 30 per cent more cost-effective than national programmes alone⁶.

Fairness?

The numbers living in **fuel poverty** continue to rise: the most recent available UK figures, for 2008, show a sharp increase in the numbers living in fuel poverty, to 4.5 million – a national disgrace. As

⁴ <http://www.greatbritishrefurb.co.uk/images/pdfs/gbr-greendealmarketresearch.pdf>

⁵ E3G: forthcoming research. See www.e3g.org

⁶ <http://www.sd-commission.org.uk/publications.php?id=1093>

discussed, the Green Deal won't work for the fuel poor. They are much more likely to underheat their homes – so if their properties were to be improved, they are likely to react not by saving money on their bills but by actually heating their homes properly. This could wipe as much as 30 per cent off the expected savings from the improvements⁷), making the 'golden rule' (see page 2) much harder to achieve.

Harder to treat homes will require more expensive work to be done. That will take longer to pay off, increasing the length of the repayment period on the loans, and therefore increasing the total amount repaid – potentially greatly reducing the loans' attractiveness or ability to deliver.

The Government will be able to partially deal with this with its new Energy Company Obligation, which will require energy companies to subsidise more expensive measures or those for the fuel poor. But because the cost of the ECO will ultimately end up on all consumers' bills, including the fuel poor, there's a limit to how high the contributions from the ECO can be. ECO would replace the existing Carbon Emissions Reduction Target (CERT), through which energy companies pay about £1.3bn to deliver a variety of energy efficiency improvements – approximately £50 per household. The Government suggests the amount under the ECO may rise to closer to £60 per house.

It is hard to see how even this increased amount of funding can go anywhere near far enough. Although the ECO will be a help, there is no way it can deal by itself with the massive gap between what the Green Deal can deliver and what is really needed. The ECO could help tackle fuel poverty, or subsidize hard-to-treat homes, but not both, and even then not comprehensively for either.

Conclusion

Subsidy is still going to be needed. The context is that the Government slashed support for the existing Warm Front scheme in the Comprehensive Spending Review and will soon phase it out entirely. Direct investment from Treasury, hypothecation of any future carbon tax and receipts from permit sales in the European Emissions Trading Scheme must all be on the table.

Additionally, with enough funding and a remit to let it do the job, the new **Green Investment Bank** could help to get enough low-interest money into the Green Deal to make it more of a success. This is the approach that has been successful in Germany for several years, where its KfW Bank – subsidized by the state – has been making energy efficiency loans at less than 3% to German householders for whole-house refits.

If Green Deal providers are allowed to include renewable energy in the Green Deal, supported by the Feed-in Tariffs and Renewable Heat Incentive, that would make the economics more appealing and the whole package more comprehensive and effective – but the Government is currently ruling this out.

Incentives are also going to be hugely important – both 'carrots' (financial incentives) and 'sticks' (legislation for future minimum standards on energy efficiency) will be needed. One-third of potential adopters of the Green Deal would be likely to take up the package if they had certainty that minimum energy efficiency standards for selling or renting out properties would be introduced in the future. And financial incentives like a council tax rebate or money off stamp duty would also make a big difference.

The Green Deal is not a proper strategy for cutting carbon and eliminating fuel poverty. It has been presented to Parliament without targets and shorn of an overall strategy which sets it in context. **The Energy Bill must commit to eliminating fuel poverty and cutting emissions from homes by 42 per cent by 2020.**

Contact

David Powell, Economics Campaigner - 020 7566 1614 / david.powell@foe.co.uk

⁷ Consumer Focus, 'Energy Company Obligation' (2010): <http://www.consumerfocus.org.uk/files/2010/12/Green-Deal-ECO-v1.pdf>