



House of Commons  
Energy and Climate Change  
Committee

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**The Green Deal:  
watching brief (part 2):  
Government Response  
to the Committee's  
Third Report of Session  
2014–15**

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**Fifth Special Report of Session  
2014–15**

*Ordered by the House of Commons  
to be printed 9 December 2014*

## The Energy and Climate Change Committee

The Energy and Climate Change Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Energy and Climate Change and associated public bodies.

### Current membership

[Mr Tim Yeo MP](#) (*Conservative, South Suffolk*) (Chair)  
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### Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/ecc](http://www.parliament.uk/ecc) and by The Stationery Office by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Farrah Bhatti (Clerk), Vinay Talwar (Second Clerk), Tom Leveridge (Committee Specialist), Marion Ferrat (Committee Specialist), Shane Pathmanathan (Senior Committee Assistant), Amy Vistuer (Committee Support Assistant), and Nick Davies (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Energy and Climate Change Committee, House of Commons, 14 Tothill Street, London SW1H 9NB. The telephone number for general enquiries is 020 7219 2158; the Committee's email address is [ecc@parliament.uk](mailto:ecc@parliament.uk).

## Special Report

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On 15 September 2014 the Energy and Climate Change Committee published its Third Report of Session 2014–15, *The Green Deal: watching brief (part 2)* [HC 348]. On 5 December 2014 the Committee received the Government's response to the Report. It is appended below.

## Appendix: Government response

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### Introduction

The Government welcomes the Committee's continued interest in energy efficiency policy and, in particular, in the development of the Green Deal and ECO. We agree on the strategic benefits of improving homes: helping consumers manage the cost of living, protecting public health, supporting security of supply, and reducing harmful carbon emissions.

The Government does not, however, accept the Committee's main conclusion that the Green Deal has been a disappointing failure. We certainly took a bold move to launch the scheme as soon as the framework was in place – rather than pilot the approach. And we would argue that leadership, and setting high expectations, is an important role for Government in an area of policy whose importance has too often been overlooked in the past. But the fact that an innovative scheme should have taken 12 months to become established is hardly a surprise in itself. The commercial world is littered with examples of new and successful products and services which took substantially longer in testing than the Green Deal has been in operation (since May 2013). The Committee's "watching brief" seems entirely appropriate in the circumstances; and we look forward to the continuing dialogue.

The Committee's Report raises a number of important issues. But it also risks overlooking the fundamental purpose of the Green Deal. The policy has been designed to enable improvements to the efficiency of the residential building stock. It does so by offering consumers information about the way in which they use energy in their homes, advice about the changes which can be made to reduce waste, and support in making installations which will make a difference. While the ability to take out a loan which can be repaid through the energy bill is an important means of tackling a major barrier to energy efficiency, a Green Deal Finance Plan is just that: the means to an end. Benefits accrue from the Green Deal if it informs, encourages and enables more consumers to make improvements to their properties, whether they do so with a Green Deal Finance Plan, a commercial loan, or by investing some of their savings.

By the end of October, nearly 400,000 customers had a Green Deal Assessment. Over 30,000 assessments were carried out in that month alone. Moreover, DECC's regular survey of customers who have had a Green Deal assessment demonstrates that over 80% are in the process of carrying out at least one installation, or are taking active steps to do so. That is unquestionably a sign of success.

Green Deal Finance is also on an upward trajectory. The latest statistics show that demand has been rising month on month – by more than 20% in August, September and October 2014 – as more companies have demonstrated their confidence in the policy, invested in the accreditation process, and moved on to become active in the energy services market.

We have no doubt that there is still a great deal to do. The Committee's report makes a number of suggestions which will help inform the continual improvements which we know are necessary, as the scheme becomes established. This memorandum responds to each of your main recommendations. DECC will continue to work with the Committee, with industry and with consumer groups to build on the strong foundations which have been laid over the last 18 months.

## Overview

The best energy saving we can make is to prevent waste. This Government is committed to putting in place a coherent programme of activities which not only provide immediate practical help for householders now, but establish the foundation for new ways of promoting and enabling home improvement in future: to help ensure that energy is affordable, support security of supply and to meet our statutory targets to reduce harmful carbon emissions.

Retrofitting over 27 million homes was always a significant challenge. That challenge is getting harder. Most of the straightforward work has already been done. Almost 99% of Great Britain's homes with a loft already have some level of loft insulation; and 72% of properties with cavity walls have the appropriate insulation. Regulation is already driving the installation of well over a million condensing boilers a year. Sustainable progress now means bringing forward technologies which can meet more difficult carbon and energy-saving challenges, notably in properties with solid walls. Here, the remaining potential is 95%. There are also 3.4 million hard to treat cavities remaining.

An expectation that energy efficiency can be wholly subsidised by Government is simply not sustainable. Nor is there a "silver bullet". Our housing stock is not homogenous. And neither are householders. Improvements must to be cost-effective and appealing to consumers living and working in different economic circumstances.

With that in mind, we aim to focus finite financial support where it can make most impact: to help those most in need and least able to pay, to lever private contributions into retrofit, to develop a profitable supply chain and to stimulate innovation.

We continue to believe that a range of initiatives is needed to enable householders to make informed judgements about how they use energy in the home, and support improvements, over the long term. That is why our Programme, founded on market principles, includes a number of routes that can be accessed on their own, or in combination by consumers. Finance is one barrier to energy efficiency, but it is far from the only barrier. Success depends as much on access to accurate information, good advice, and companies which people can trust to carry out installations safely and effectively.

The Energy Company Obligation, the Green Deal, Green Deal Finance, Communities, Home Improvement Fund and planned energy efficiency regulation of the private rental

sector play a significant part in constructing that framework for the long-term. Collectively, they provide:

- **Support for those who are vulnerable** and need it most, particularly through the Energy Company Obligation which requires energy suppliers to achieve carbon and bill saving targets by funding measures for fuel poor households, helping those most in need, and improving harder to treat homes. Elements of the Obligation aimed at vulnerable households were protected and simplified after a review last year. For the first time in the UK, this Government has put in place an obligation for a four year period providing industry with a stable basis on which to plan.
- **Assessment services.** The Green Deal Assessment is essentially a bespoke home survey. It provides information not only about the way in which standard building materials perform, but about the way in which householders use energy in their home. Understanding the interaction between buildings and behaviour is essential. Nearly 400,000 assessments by October 2014 demonstrate the demand for this understanding. Our evaluation also shows that the survey is proving popular with customers.
- **Green Deal Finance:** an innovative “pay as you save” mechanism, in which a loan is charged to the property and repaid via the electricity bill. Analysis shows that first adopters have a wide range of backgrounds. We believe this mechanism will be particularly important in developing the energy efficiency of the private rented sector. It may also be attractive to those who are unable to get credit elsewhere.
- **Incentives** for consumers to take the next step: by implementing two energy efficiency measures, and/or to carry out solid wall insulation. The Green Deal Home Improvement Fund proved extremely popular when launched for the first time in June 2014. It provided a straightforward offer for customers willing to make a private contribution to the installation and was widely accessible through over 1,000 accredited installers operating throughout England and Wales. It has proved that a well-designed scheme can overcome low awareness, and – in the case of solid wall insulation - has demonstrated demand for a technology which has so much potential but does require significant building work. We are planning to release further funds through this popular scheme at regular intervals this year and next.
- Investment in local initiatives. The Green Deal Communities programme provides immediate support to improve properties in many areas across the country on a “street by street” basis through 23 local authority-led projects, involving some 96 councils. We expect these programmes to show a range of benefits over time beyond energy efficiency, through the regeneration of inner-city areas and supporting public health. The best local authorities are taking a creative approach to working with partners, bringing together different sources of finance, and leveraging private contributions. We are encouraging others to learn lessons – and build on the ideas and network which this initiative has established for the first time.

Our vision for Green Deal “brand” is much wider than a credit arrangement. It is a way to help people understand the energy saving improvements they can make to their home, access trusted participants for the installations and find the best way to pay for them, including through support and incentives. In time, through an enhanced digital offer, we plan to make the initiative broader still – so that consumers can understand how other initiatives, such as RHI and support for photo-voltaics and feed-in tariffs can work together. Green Deal assessments are already required for those wishing to benefit from the RHI.

Our household energy efficiency programme is not an array of disparate measures. Coherence is important. We took action last Autumn to reduce the costs associated with ECO, while protecting the support for the most vulnerable. That involved rebalancing the “carbon” obligation towards installations which are cheaper and easier to install. In parallel, the Home Improvement Fund was designed in a way to incentivise more complex installations like solid wall insulation with greater carbon saving potential.

In January 2013, we set a target to improve 1,000,000 homes through this programme by the end of March 2015. By the end of September, around 995,000 measures had been installed in 819,000 homes. In addition, we estimate around 100,000 homes had received installations under ECO yet to be counted formally within national statistics under new regulations passed in Parliament in November. With plans in place to issue a second and subsequent release of funds through the Home Improvement Fund, positive reports from industry about their plans under ECO, and rising demand for Green Deal Finance, we remain confident that the target will be met.

We do agree that passing the “million homes” milestone is just a start. Exploiting the framework which this Government has set in place will need agreement about the potential from energy efficiency to meet carbon and fuel poverty objectives in future which can attract widespread support. On that basis, we welcome the Committee’s report, and look forward to that debate.

## Uptake of Green Deal Plans

### Recommendation 1

With such extremely low levels of take up eighteen months in to the life of the policy, the Green Deal has so far been a failure. It is very disappointing that the Government's flagship energy efficiency policy has been so slow to attract customers. We have been and will continue to be supportive of the principle of the Green Deal, but the Government needs to set out a clear strategy to revive the failing scheme. The Government must urgently address the barriers which currently prevent wider and faster take-up of the Green Deal.

The Committee's overall conclusion overlooks the fundamental purpose of the Green Deal and the value which consumers draw from the assessment process in particular; underestimates the time which genuinely innovative products require to establish themselves within a market; and disregards the benefits which we expect to accrue from the combination of Green Deal finance and other policies, notably the regulation of the private rental sector. In short, the success of the Green Deal initiative should no more be defined by its finance element than any other consumer product should be defined by the finance used to buy it.

However, our evaluation to date shows that Green Deal finance is an attractive offer for some consumers, especially those without ready access to savings, mortgage equity or other funds. It is an important instrument to improve energy efficiency in the private rented sector, helping to minimise the up-front costs for landlords. It provides one important route for consumers, but only one.

Green Deal Finance first became available to consumers in May 2013. It is certainly the case that the number of Green Deal Providers took longer to become active in the market than the Government had wanted. In the last six months, however, we have seen more diversity in business models and a corresponding rise in Green Deal Finance Plans. In total there were 7,207 Green Deal Plans in progress at the end of October, up from 5,736 at the end of September 2014. This represents continued growth after a period of relatively low activity<sup>1</sup>.

Further work is under way to improve the experience available to customers while remaining committed, in principle, to a 'pay as you save' system, and to remove unnecessary complexity in the process which deters customers and increases cost for the supply chain.

We have established the foundations to nurture and grow a sustainable energy efficiency market for the longer term. Beyond the "million homes" target, we will need to consider how improving our housing infrastructure will help us meet our carbon, fuel poverty and energy security goals cost effectively.

The Government is clear that the scale of ambition on household energy efficiency will need to be consistent with our wider goals including on carbon budgets and fuel poverty. DECC will continue to work with industry, consumer groups and other key players to

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<sup>1</sup> <https://www.gov.uk/government/statistics/green-deal-and-energy-company-obligation-eco-monthly-statistics-november-2014>

build on them and to drive the innovation and engagement necessary to support our medium and long term goals.

## Communication and trust barriers

### Recommendation 2

The Green Deal process is too complicated and has led to confusion and mistrust. The Green Deal Oversight and Registration Body plays an important role in regulating activities but better communication across the Green Deal stakeholder chain is necessary. Publication of misleading information by GDFC and DECC further undermines a programme that already suffers from poor public understanding and interest. Until consumer trust and understanding are improved, the Green Deal is unlikely to see any substantial increase in take-up.

Any successful energy efficiency scheme will need to strike an effective balance between ease of access, consumer protection and compliance with regulation, including requirements under the Consumer Credit Act. We agree that the first iteration of the Green Deal, when launched in 2013, was too complex. That is why DECC has embarked on a programme of evaluation and detailed changes to the process, in the interests of saving consumers time, preventing attrition and encouraging wider participation by reducing industry costs.

These changes are not the kind which create headlines. They are shamelessly technical and an essential part of the continual improvement necessary in launching any innovative product. Government has benefited greatly from research and feedback which has been carried out by consumer groups and industry. That collaboration will continue to be important over the next 12 months.

A list of nineteen changes to the Green Deal operation is set out in Annex A. Examples include:

- A change to the Consumer Credit Act 1974, to address concerns that definitions in this Act could be interpreted in different ways to those in the Energy Act, enabling the use of Green Deal finance in the private rented sector.
- A new Green Deal Advice Report which provides more straightforward information on recommended improvements and signposts to other routes to financial support and initiatives such as RHI and feed in tariffs.
- Shorter documentation from the Green Deal Finance Company which is easier for consumers to understand.
- A new on-line tool, providing by gov.uk which enables consumers to see at a glance what sort of improvements might be applicable to their property, and the associated costs and savings.
- Enhanced support for consumers from the Energy Saving Advice Service, as well as search tools to help consumers find accredited providers and installers to carry out work in their area.

We will continue to work with advisors, assessor organisations, installers, providers and certification bodies to evaluate other ideas to improve the Green Deal Framework. These will include streamlining the Code of Practice and the assessments regime.

We note the Committee's recognition of the Oversight and Registration Body's (ORB) role. DECC continues to work closely with the ORB to ensure that accurate and timely messages are conveyed across the Green Deal and ECO supply chain.

Communications across the supply chain will necessarily be limited by the fact that companies are competing for business, nonetheless they have been enhanced since introducing the Green Deal Home Improvement Fund, which succeeded in attracting over 1000 registered Green Deal installers to participate.

We think that communications with industry can be further enhanced. We believe Government would benefit from sharing data about likely demand, and information about potential sales in managing successive releases under the Home Improvement Fund. To that end, we will release weekly statistics including on applications, voucher and funding allocation across both categories of the Fund i.e. for solid wall insulation and for 'two measures'.

We are following with interest proposals submitted by the New Energy Foundation for a "retro-fit hub" to enhance knowledge through information exchange in this area and continue to maintain a close interest as the project develops.

We note the Committee's comments about the publication of information about the Green Deal. We have published monthly and quarterly statistical data on Green Deal and ECO since the Programme began, as well as a significant body of consumer and other research. This was recognised in oral evidence to the Committee. Jenny Saunders (CEO, National Energy Action) said:

"There are an awful lot of statistics coming out. I think there are more than we had ever anticipated. There is a great deal of transparency around it. DECC is not shying away from sharing a lot of detail. What we do not have yet, though, is a clear picture of how satisfied customers are about the whole thing. That is perhaps what is missing and that would be an area I would recommend that DECC look at, to try to gather some of that information from the providers of the schemes to give evidence on satisfaction rates."

DECC has published a straightforward outline of the Green Deal on gov.uk, and have developed Quick Guides for use by consumer groups and industry to provide more detail. Additional support for consumers is available through the Energy Saving Advice Service helpline.

The Committee is correct in referring to complaints which were upheld by the Advertising Standards Agency in 2014 against one advert for the Green Deal. One of the major issues centred on whether consumers would interpret particular case studies to be indicative of the savings available from other properties, or draw the conclusion that savings under the Green Deal were guaranteed, even though no such claim was made. These points demonstrate the challenge which any Government has in launching innovative financial products: there are legitimate tensions between our objective to provide simple access to

straightforward products and to protect consumers. On this occasion, the Government did not strike the right balance and the ruling has been used to ensure that the message about the long-term nature of the Green Deal is set out more meticulously in future.

## Identifying clear objectives

### Recommendation 3–4

“The Government needs to deal with the criticisms surrounding the poor take-up of the Green Deal. A lack of public commitment towards selling Green Deal plans is contributing to the increasing uncertainty surrounding the future of the Green Deal.

We recommend that DECC set out a robust framework through which the Green Deal can be assessed. In particular, DECC should be clearer about its ambition for the number of plans sold and CO<sub>2</sub> saved through measures installed under Green Deal. The Government should also clarify its expectations of CO<sub>2</sub> saved through other energy efficiency programmes. The Department and The Green Deal Finance Company should communicate a consistent message on what success will look like. (Paragraph 41–42)

The Government has already been clear to show that Green Deal and ECO are among a suite of policies to put the country on a low carbon pathway.

The Third Carbon Budget requires the UK to reduce greenhouse gas emissions to around 35% below its 1990 levels. This is an ambitious challenge in its own right, and a stepping stone towards the target of an 80% reduction in emissions by 2050.

Household energy efficiency is an important component of the plan to reach these targets, along with de-carbonisation of energy sources and energy efficiency elsewhere in the economy. Indeed, energy efficiency is one of the most cost effective ways of saving carbon and energy, and savings from ECO and Green Deal are a major contributor to our country-wide commitments under Article 7 of the European Union’s Energy Efficiency Directive, which details the energy savings from the government’s full portfolio of energy efficiency policies.

We do not agree that it would be appropriate to set a public target for the number of Green Deal Finance plans for two reasons.

- First, Green Deal Finance is simply a means to an end. The benefits of the Green Deal include reduced carbon emissions, warmer, more comfortable and healthier homes, and more affordable energy, whether the installations are financed through a loan repaid through the electricity bill or other means.
- Second, a credit arrangement must be an offer to consumers not a requirement. And Government is clear that decisions must be made by consumers on the basis of accurate information and reasonable advice about the benefits and risks associated with the arrangement. Setting a target for the sale of Green Deal Finance Plans would create a different expectation.

The Government has, however, set a public target for household energy efficiency, which is to improve 1,000,000 homes by March 2015 through this programme.

We are committed to a comprehensive evaluation of the Green Deal and ECO programmes and to report on the benefits, including carbon savings. Part of ECO is defined in terms of carbon; when changes were made to the policy in autumn 2013, the Government set out its expectation of the carbon impacts. It also estimated the carbon benefits associated with new and developing policy such as private rental sector regulation. More detail has been given in impact assessments and in quarterly statistical publications<sup>2</sup>. It is too early to provide a formal evaluation of ECO, the Home Improvement Fund or Green Deal Communities while those projects are part way through delivery and, in the case of GDHIF, vouchers have yet to be redeemed. We are, however, committed to publish evaluation reports as and when they are submitted, including information about carbon savings from household energy efficiency policies.

## ECO and the Green Deal

### Recommendation 5–6

The Green Deal and ECO have similar goals but are different programmes operating in distinct ways. They should be complementary rather than competitive. Allowing loft and cavity wall insulation under CERO raises the question of what the Green Deal will now be used for. It is not clear what impact the recent changes to ECO will have on the take-up of the Green Deal. (Paragraph 47)

We recommend that DECC clarifies what it expects the Green Deal to be used for during the lifetime of ECO and produces clear consumer guidance as to the different ways in which Green Deal finance can be used (for example in isolation or in combination with other schemes and incentives). A one-stop place for consumers to determine their options would greatly simplify the customer journey and encourage take up where households may not be aware of the combination of options available to them.

The Government agrees that energy efficiency policies should complement each other, rather than compete for attention by consumers.

When the Government announced policy changes to reduce the average fuel bill by £50, we also announced that £450 million would be made available to incentivise household energy efficiency in 2014-15, 2015-16 and 2016-17. The Green Deal Home Improvement Fund was launched in June and developed explicitly to complement the changes to ECO. It included a separate incentive for solid wall insulation, at a substantially higher rate than the previous “cashback” scheme – while ECO rules were changed to allow energy supply companies to deliver their carbon obligations through measures which were easier and less expensive to treat. Following the popularity of the Home Improvement Fund’s first release in July 2014, more people will get help to improve the energy efficiency of their homes through a new release of the Fund in December. Up to £30 million in vouchers will be available - part of an additional £100 million for household energy efficiency announced in October 2014.

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2 <https://www.gov.uk/government/collections/green-deal-and-energy-company-obligation-eco-statistics>. Many of the findings from DECC’s early evaluation of the customer experience have already been published at: <https://www.gov.uk/government/collections/green-deal-assessments-research>.

In the light of the Committee's report, the Government has announced an important modification to the design of the Fund for the second release of vouchers. The solid wall incentive will be managed separately from the incentive to carry out two installations from a longer list<sup>3</sup>; and the available £30 million divided in the ratio 80:20. That provides a stronger signal to consumers and industry about exploiting the carbon-saving potential associated with solid wall insulation in meeting long-term goals. Like under the first release of the Home Improvement Fund, it will remain an option to consumers to combine both offers.

Each component of the Household Energy Programme has specific aims which are relevant to different audiences, and complement each other:

- Although the Home Improvement Fund is a general offer, it has proved attractive to private landlords as well as homeowners, as the Government considers the energy efficiency standards which should be set in the private rental sector.
- ECO Affordable Warmth provides specific support to low income and vulnerable households or those at risk of being in fuel poverty. These are households for which a Green Deal finance package or other incentive which requires a personal contribution might not be appropriate.
- The ECO Carbon Saving Community Obligation (CSCO) targets support in rural areas where improved insulation can make a major difference to the quality of people's lives.
- Green Deal Communities has been designed to demonstrate how a locally led "street by street" approach can have a major impact in encouraging the take up of energy efficiency improvements.

We agree with the Committee about the importance of straightforward information, advice and guidance to consumers. DECC already publishes a range of consumer guidance on how Green Deal finance can be used to support the installation of energy efficiency measures. The telephone based Energy Saving Advice Service signposts callers to a range of opportunities provided by Government and the private sector to help them take energy-saving measures at home and help to control fuel bills, including the range of household energy efficiency offers, and the Renewable Heat Incentive (RHI). The advice provided is free, but calls are charged at the standard national rates.

In January this year, DECC launched a simple on-line Home Energy Tool, supported by improved guidance on Government-backed energy efficiency initiatives to help consumers check quickly what types of improvements they might benefit from and the support that may be available. DECC is in the process of developing this tool to provide more detailed information without requiring extensive information from the consumer.

Only those offering services in the market place can provide all the information which consumers will need, including technical feasibility and costs. But we agree that DECC has a responsibility to provide coherent information about Government schemes. Learning

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3 <https://www.gov.uk/green-deal-energy-saving-measures/get-money-back-from-the-green-deal-home-improvement-fund>

lessons from the Green Deal Communities and the first rounds of the Home Improvement Fund will be particularly important as we look to improve the customer's experience.

## Green Deal Finance

### Conclusion and Recommendation 7–8

We welcome the Government's commitment to introduce a financing mechanism available to those who would not otherwise be eligible for a loan, but DECC's current offer is burdensome and limiting. Unless the package is made more attractive to a wider group of consumers, Green Deal finance is likely to remain unappealing to many. We understand that DECC may be unwilling to subsidise the loans in order to lower the interest rates on Green Deal finance, but there may be other financial opportunities available which could prove more attractive to customers.

We recognise the need for consumer protection in calculating the Golden rule, but DECC should be able to offer a better deal for consumers. We recommend that DECC review whether it is being too cautious in calculating projected energy savings and in-use factors, so that the Golden Rule may become more ambitious. Other financial incentives, such as stamp duty discounts and variable council tax rates for more energy-efficient households, as well as other measures and regulations, should also be experimented with.

With any credit agreement, the priority must be to protect the interests of the consumer. Policies are designed to ensure that consumers are not encouraged to borrow more than they can afford. The Golden Rule has been designed on a conservative basis with that in mind: based on the last three years of energy prices and not allowing for potential inflation. Moving away from this approach would increase the level of risk faced by consumers.

We do recognise, however, that the Golden Rule limits the level of finance available for packages of measures, and will not suit all consumers. In October 2014, we contracted consultants Sustain Ltd to review the evidence base for the current in-use factors applied to energy efficiency measures available through the Green Deal and Energy Companies Obligation (ECO). Results of that review are expected in Spring 2015. We will continue to work with industry and consumer groups to consider ways in which the Golden Rule might be refined to allow higher levels of financing.

The Government welcomes the recognition which the Committee has given to the Green Deal Home Improvement Fund and how its popularity has demonstrated an appetite for energy efficiency installations. Although the scheme was closed to applications much sooner than many might have expected, the Government was clear that the Fund was limited. By end October well over £100 million of applications had been converted into vouchers – creating an on-going pipeline of work for the industry, and benefiting up to 20,000 households. In its announcement on 7 December, DECC announced that a second release of the Home Improvement Fund starting on 10 December would be just one of a planned series of further opportunities to benefit from the scheme in 2015.

## Streamlining the application process

### Recommendation 9

The Government should set out in its response the extent to which (a) improvements in consumer advice and (b) the offer to take businesses from quote to plan in a day have increased the uptake of the Green Deal.

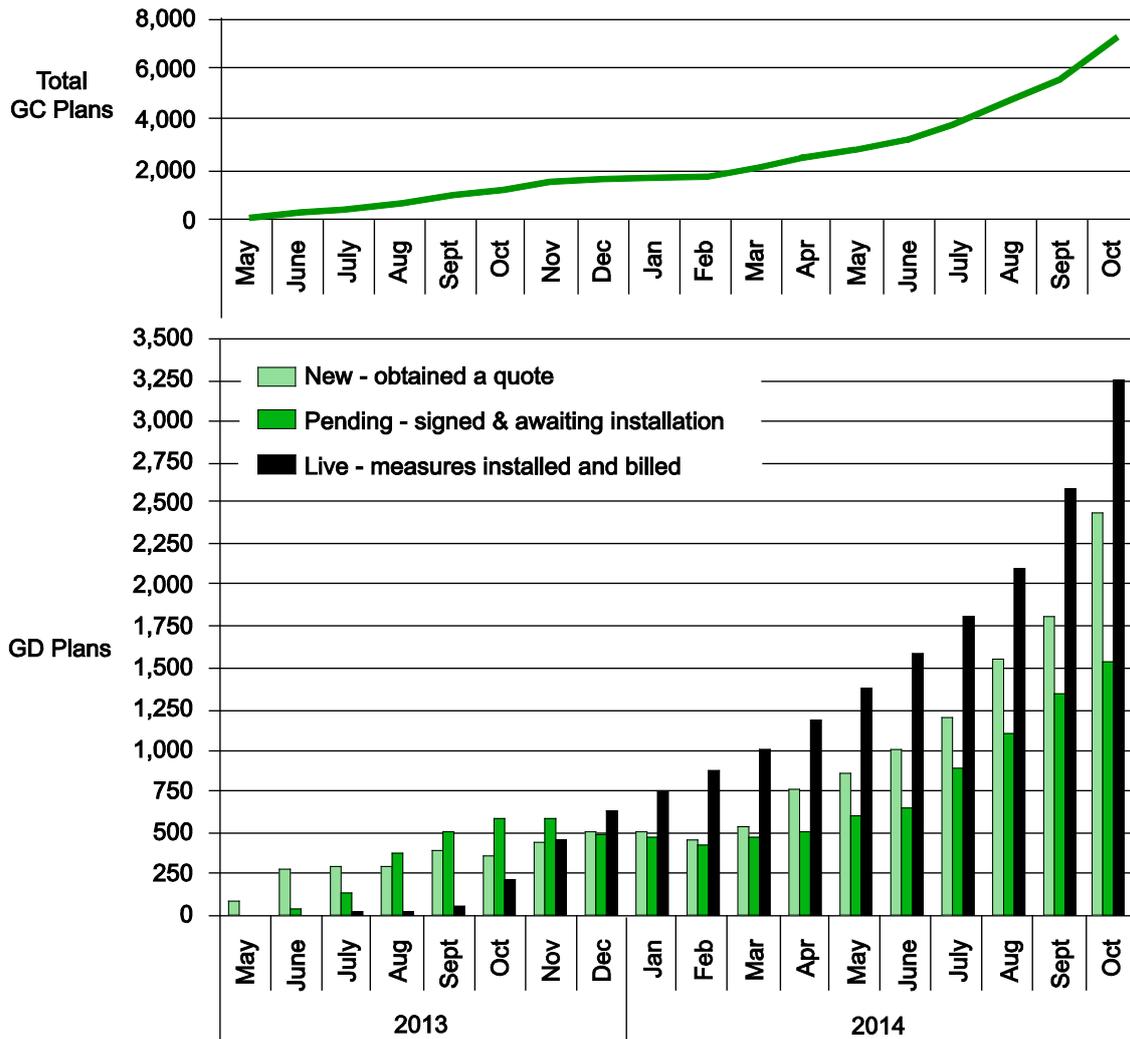
DECC should bring together the organisations working across the different stages of the Green Deal process to develop a shorter, more streamlined process across all parts of the Green Deal supply chain.

We recommend that DECC sets out a strategy to monitor the impact of the different changes.

The Green Deal Finance Company should develop the “Green Deal in a Day” so that it can be offered by all providers, while still ensuring that the process remains robust when moving from an assessment to a plan in a shorter period of time.

Like any major consumer initiative, the Green Deal will benefit from learning lessons from experience. Since the first data was received about demand, DECC has been looking carefully at improvements which can be made to improve the customer journey and reduce the costs for business, while ensuring that there is adequate consumer protection. Details of the changes which have already been made are at Annex A.

As Chart 1 shows, there has been a month on month increase in Green Deal Plans since early 2014 with over 7,200 currently in progress. September saw a 26% increase against August; which in turn was 21% higher than the number at the end of July. The number of Green Deal Providers has increased to 174 at the end of October 2014 from 112 at the end of October 2013.



It is not possible to track precisely how demand is affected by particular changes in methodology, but the cumulative impact is clear. There is also good evidence to show the differential impact of changes in terms of time which could be saved for the consumer. The “Quote to Completion” enhancement has alone removed ten days of time previously required for the exchange of documents between a customer and Green Deal provider. That said, timescales will continue to vary between commercial models.

The following data is also available:

- Since the launch of Government’s on-line tool on GOV.UK, there have been nearly 374,000 unique enquiries;
- Since 28 January the ESAS signposting service has pointed nearly 6,000 customers to local offers that matched their requirements
- Since its launch on 5 March 2014, over half a million unique searches have been made for Green Deal Providers using the on-line search tool. The ESAS customer support service has helped 766 customers who preferred to make the same enquiry by telephone.

DECC has established a regular discussion with industry and consumer groups through a range of fora to ensure that changes are informed by intelligence, data, feedback and ideas

from those who use and run energy efficiency businesses. These include the Green Deal Strategy Group which has so far been chaired by Sir Ian Cheshire, the Green Deal Provider Forum, the Green Deal Installer Forum, the Green Deal Assessor Forum and the Green Deal Consumer Protection Forum. Well over 100 organisations have informed changes made so far, including small, medium and large enterprises acting as participants and certification bodies.

There is a strongly emerging view that, while early reforms have been helpful, further incremental change is unsettling within an industry which has only recently invested in new business models, systems and processes. Taking this, the Committee's report, and our review of the Home Improvement Fund, we are looking again at options to improve the way in which DECC engages the industry to understand likely demand for incentive schemes and the pipeline of work which they create. If there were to be any more fundamental changes in the policy framework in future, we would also discuss how best to manage these with industry, including how best to engage with the new industry-led retrofit hub.

## Enabling access

### Recommendation 10

It is disappointing that customers wishing to take out a Green Deal plan are either not able to find a provider, or refused services by a provider on the grounds of distance.

At the end of October there were 174 authorised Green Deal Providers offering a range of Green Deal services. 65 can offer Green Deal finance, and the range of business models is growing. The Energy Saving Advice Service (ESAS) is helping to ensure that consumers interested in Green Deal finance are being matched with appropriate Green Deal Providers, based on the recommendations in their Green Deal Assessment Report and their geographical location. Customer tools for finding Green Deal Providers accessible via [gov.uk/greendeal](http://gov.uk/greendeal) are updated regularly. Customer choice has been significantly enhanced by the Green Deal Home Improvement Fund. Well over 1,000 companies registered to participate, with a good geographical spread.

Even more worrying is the lack of access to the Energy Company Obligation for rural customers, who participate in paying for the scheme but often fail to benefit from it.

### Recommendation 11

We recommend that the Government should be more proactive in identifying the households most in need and ensuring that they are targeted by energy companies for the delivery of energy efficiency measures under ECO.

We also recommend that the CSCO rural sub-obligation should ensure that isolated off gas-grid consumers are not bypassed by energy companies delivering their obligation.

We agree with the Committee's emphasis on access for consumers in most need.

Two of the three strands of ECO are aimed explicitly at helping the poorest households. The Affordable Warmth obligation provides heating and insulation measures to low income and vulnerable consumers living in private tenure while the Carbon Saving Communities Obligation (CSCO) provides insulation measures to households in specified areas of low income. The latter also ensures that 15% of each supplier's obligation is used to deliver measures to low-income households in rural areas.

Our changes to ECO do not impact on the targets which energy suppliers must achieve under either of these obligations by 2015. On the contrary, we aim to provide longer term certainty. With that in mind, we are setting new targets for 2017, ensuring that dedicated support for low income and vulnerable households continues into the future, as now.

We recognise that proving eligibility for Affordable Warmth is often seen as costly and complicated by the supply chain and intrusive for the customer. To address this, we are seeking to establish a service through which the Department for Work and pensions could provide electronic confirmation of an individual's receipt of an eligible benefit/tax credit at the beginning of the customer journey. We have made significant progress on this development, and expect to have the service in place by Summer 2015.

In July we announced that the pool of eligible areas for the main CSCO target will be expanded and the eligibility requirements of the CSCO rural sub-target will be simplified with retrospective effect from 1 April 2014 helping more households in low income rural areas. We are also introducing a separate CSCO rural commodity for ECO brokerage. Secondary legislation to implement the changes was laid on 22 July and has since been approved by Parliament.

In addition to these changes, the Government is incentivising the market to deliver energy efficiency measures to non-gas fuelled homes. We intend to introduce uplifts to the Affordable Warmth score for insulation and heating measures delivered to households whose primary heating systems are non-gas.

We also intend to introduce a new 'qualifying electric storage heater' measure under Affordable Warmth. This will enable the repair or replacement of an electric storage heater to be scored on the same basis as is currently used for a qualifying boiler, thereby providing a higher notional bill saving. This, in turn, will provide an incentive for companies to offer more ECO to households which use storage heaters.

## **Recommendation 12**

We welcome DECC's initiatives to encourage energy efficiency in the domestic private rental sector. DECC must ensure that the widest range of options is available to landlords and tenants to carry out the installation of measures.

Landlords and tenants already have a range of options available to undertake energy efficiency improvements; and we agree that access to these options should continue.

The "pay-as-you-save" principle underpinning Green Deal finance has particular relevance to privately rented homes because it creates a win-win opportunity for both owner and tenant. The electricity bill payer, normally the tenant, contributes towards the cost of the improvements through real savings on their electricity bill. They benefit from a more comfortable, healthier home while landlords gain improvements to their property. The

recent amendments to the Consumer Credit Act to clarify the legal definitions therein for Green Deal Plans have removed one of the barriers to the availability of Green Deal finance in the rented sector.

We have encouraged and supported landlords to improve their properties well in advance of new standards in regulation. They are taking the opportunity. Latest figures show that nearly 115,000 households in the private rented sector have so far benefited from ECO measures. The changes we have made to the Energy Company Obligation (ECO) are expected to help further. In the first phase of the Green Deal Home Improvement Fund, landlords accounted for a significant proportion of applications.

The Government consulted over summer on the details of the private rental sector minimum energy efficiency standards, and is currently considering stakeholder comments. The Government will make clear its approach when it published its response to the consultation. Financial institutions are already seeking additional reassurance when lending on F and G rated properties, and buyers are performing additional due diligence on the energy performance of buildings they are seeking to buy.

## **The Government's promotion of the Green Deal**

The Committee raises many overlapping points about communications in recommendations 13–16. These are best responded to together.

### **Recommendation 13**

The Green Deal is suffering from a lack of engagement between consumers and the market. Renewed efforts to promote the Green Deal and energy efficiency most now be a major priority for the Government. The Government's initial promotional campaign came too early, before the Green Deal Finance Company and the supply chain were in a position to provide plans. The pay as you save model and the attachment of the loan to a property rather than the individual taking up the loan remains a relatively novel concept and the Government has failed to make the case for the benefits of energy efficiency improvements. The recent Green Deal Home Improvement Fund campaign failed to address the underlying drivers of energy efficiency installations. By offering "free incentives" which it then found itself unable to deliver, the Department is likely to have caused more confusion and mistrust without addressing the root of the problem: explaining the personal and societal advantages of retrofitting the UK's housing stock.

## **Prioritising Communication**

### **Recommendation 14**

A new communications strategy is needed, which promotes energy efficiency for (a) individuals; (b) communities; and (c) the country's long-term goals. In relying on providers to carry out the Green Deal marketing, the Government has failed to communicate the wider benefits of energy efficiency. DECC should acknowledge its responsibilities for doing this. The Department should draw on external marketing experts as necessary and collaborate closely with all players in the market. Clear and

consistent messaging must be communicated by all of those involved in Green Deal and ECO

## Delivering focused communications

### Recommendation 15

As part of DECC's new approach to communications, it should determine the best strategies to promote the energy efficiency measures in different areas and to different types of customers. The Green Deal website should provide a straightforward customer journey and outline the costs incurred at each stage, as well what incentives and options are available. (Paragraph 88)

## Communicating at a local level

### Recommendation 16

In addition to a national communications campaign, the involvement of local authorities and associations is pivotal to the successful implementation of the Green Deal. Local sources of information that communities are used to turning to and trust will play a vital role in encouraging energy-efficiency installations. Area-based approaches such as those encouraged by the Green Deal Communities fund are likely to further boost demand. Schemes such as the Big Energy Saving Network are also instrumental in delivering such plans. (Paragraph 93)

DECC developed a communications strategy for the Green Deal with an external communications planning agency CARAT. We concluded that Government promotion should focus on helping households understand the Green Deal framework and on building awareness of and trust in the Green Deal Quality Mark.

The strategy identified that industry was better placed to encourage consumers' interest in packages of energy saving home improvements and in converting this interest, accompanied by an understanding of and trust in the Green Deal, to action. Modelling that informed the strategy made the assumption that Government investment would account for no more than 40% of investment in advertising and other large-scale promotion. The strategy placed the Green Deal in the 'home improvement' space and recognised that different households would have different reasons for considering energy saving improvements, including comfort, energy bill and carbon savings.

Over the period since the Green Deal launched in January 2013, Government-funded campaign activity has been dominant. There has been limited *national* promotion of the Green Deal from industry although several small and medium sized organisations have enthusiastically supported the initiative<sup>4</sup>. The Green Deal Finance Company has been engaged in an active communication programme for its product.

The Government's campaign commenced with a focus on the Green Deal process and the option to pay using Green Deal finance but over time has evolved and extended to cover broader territory.

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4 <http://www.instagroup.co.uk/greendead>; <http://www.thegreendeadpig.com/>; <http://www.infinityenergyorganisation.co.uk/>; <http://www.infinityenergyorganisation.co.uk/>; [http://www.anesco.co.uk/government-initiatives/green-deal/http://www.sersltd.co.uk/?page\\_id=2836](http://www.anesco.co.uk/government-initiatives/green-deal/http://www.sersltd.co.uk/?page_id=2836)

Media partnerships with major media owners including the Sun, Guardian, Mail, Express, Channel 5 and Real Radio communicated the range of improvements that can be done to keep homes warm and comfortable whilst using less energy – through insulation, more efficient heating or by considering renewable energy. We encouraged consumers to consider a Green Deal assessment to find out what they could do.

The first release of the Green Deal Home Improvement Fund incentive which - requiring a significant consumer contribution - was designed to test demand for substantial installations with high potential to reduce carbon emissions and energy demand, was communicated through national and regional press, radio, outdoor and digital advertising, and increased awareness of the incentive and the broader Green Deal. The design of the incentive reflected our strategic conclusion that home improvers including recent home buyers are an important segment.

DECC is funding the ‘Keep Warm this Winter’ campaign involving the Citizen Advice Bureau and Help the Aged, amongst others. Improving energy efficiency is a core message in this campaign.

The Department welcomes the “Big Energy Vision<sup>5</sup>” campaign coalition of businesses and civil society launched recently by some of the most influential names in the energy efficiency sector initially with a web-based campaign, aimed at changing the national dialogue and helping people take control of their energy. DECC looks forward to following its progress with interest.

We agree with the Committee that Government should take the broadest view of communications about energy efficiency. Evidence suggests that customers often respond well to seeing and hearing about what can be achieved in others’ homes. With that in mind, Government has funded an expansion in the number, and range of locations, of ‘open homes’ where people can visit properties like their own to understand the benefits that improvements can bring. DECC contracted with the Centre for Sustainable Energy to develop a national hub [www.greenopenhome.net](http://www.greenopenhome.net), and is providing support for 27 local networks. DECC will provide further funding as long as the Department’s funds are matched by third parties.

The Government agrees that the involvement of local authorities and their local partners are important to the successful implementation of the Green Deal. DECC’s Green Deal Communities projects – covering 96 individual Local Authorities across England - with £84 million of funding in the 2014–15 financial year. These projects tackle energy efficiency promotion at a local level, on a street by street basis, with a focus on harder to treat properties, such as those apt for solid wall insulation. Green Deal Communities programmes incorporate advice from the Government’s Behavioural Insight Unit. Early feedback suggests an effective campaign benefits from effective targeting of properties, a good understanding of the local population, promotion through local trusted voices, the importance of seeing the first improved home, a simple offer and a short customer journey. DECC is capturing the emerging learning from these projects and sharing it across the Household Energy Efficiency Programme to facilitate learning and enhance delivery.

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5 <http://www.energycontrol.co.uk/>

DECC notes that the prime responsibility for a smooth simple customer journey lies with industry, particularly in regard to provision of information related to costs and product specifications, and in the details of considering Green Deal finance or arranging installations. However, DECC is working to improve its contribution to the customer journey, particularly through digital channels. We are working with gov.uk to make it easier for households to find out about the full range of DECC household energy policies including the Green Deal, ECO, Home Improvement Fund, RHI and FITS and to help people get an initial idea of what might benefit them.

Overall, DECC acknowledges that there is a long term challenge to engage consumers more effectively on the need for and advantages of household energy efficiency. Government – national, devolved and local – has an important role to play alongside industry and other partners. We need to understand how best Government resources can be deployed especially at a time when these are necessarily limited. And we need to understand how communications works effectively alongside other policy levers.

We agree with the Committee's recommendation that an appropriate Communications strategy needs to be an important and integral part of considerations in the future.

## Annex A: Early Improvements to the Green Deal Framework

No	Improvements	Outcomes and Impact
1	Faster ORB approval process for applicant GDPs	<p><b>Intended outcome:</b> Reduce the time it takes GD ORB to authorise organisations as GDPs.</p> <p><b>Impact:</b> ORB application processing time halved (to 22 calendar days max).</p>
2	'MOT' checklist of home improvements available for Advisors to give to customers	<p><b>Intended outcome:</b> To provide consumers with a clear, user-friendly list of what is available to them. Customers are more informed about the range of measures available to them to improve the energy efficiency of their homes.</p> <p><b>Impact:</b> To be measured through evaluation research</p>
3	Faster GDFC approval process for applicant GDPs	<p><b>Intended outcome:</b> Rationalise the requirements and set out more clearly the information and stages involved in approval and to reduce the length of the authorisation process.</p> <p><b>Impact:</b> The 'on-boarding' time has reduced from several months, in some cases to 6 weeks.</p>
4	Extra support for authorised GDPs not yet active in the market – dedicated support service	<p><b>Intended outcome:</b> To give GDPs, not yet active in the market, additional support to help them become active in the market more quickly.</p> <p><b>Effectiveness:</b> To date GDFC has engaged 114 GD providers and has fully completed training for 65 now ready to sell Green Deal finance.</p>
5	New and more user-friendly Information Plan documentation issued to Providers	<p><b>Intended outcome:</b> To make the finance offer more accessible to customers by:</p> <ul style="list-style-type: none"> <li>• Simple explanation of the purpose and content of different credit and installation agreements.</li> <li>• Clearer explanations of the process customers need to go through to get GD finance.</li> <li>• Reduced dropout rate for customers requesting a GD plan</li> <li>• Reduced time and costs for GDPs as they don't need to develop their own material for customers.</li> </ul>
6	New online tool on gov.uk	<p><b>Intended outcome:</b></p> <ul style="list-style-type: none"> <li>• To help customers identify the most appropriate help or support based on their self-identified needs.</li> <li>• Drive uptake of energy efficiency, renewable heating and micro generation programmes.</li> <li>• Reduce costs by making the Energy Saving Advice Service (ESAS) digital-by-default.</li> <li>• Provide valuable and actionable customer insight</li> <li>• Help identify potential synergies and efficiencies in policy delivery</li> </ul> <p><b>Impact:</b></p> <ul style="list-style-type: none"> <li>• 373,716 unique visits since launch of the new tool (5 January 2014)</li> <li>• Visits expected to increase following the launch of the gov.uk application programming interface (API), permitting the tool to be embedded on 3<sup>rd</sup> party partner websites</li> </ul>

No	Improvements	Outcomes and Impact
7	Improved information on Government energy efficiency schemes – new content on gov.uk	<p><b>Intended outcome:</b> To present an on-line, joined up consumer offer across the range of DECC's domestic energy efficiency policies and to provide customers with a clear, trusted, single source of the help available to them for energy saving home improvements. Greater user satisfaction, more traffic and driving people to next step in the customer journey.</p>
8	'Quote to Completion' – systems in place to enable customers to get a Green Deal Plan on same day they are offered a quote	<p><b>Intended outcome:</b> Reduce the time involved in getting GD finance plan and therefore increase uptake of plans / reduce drop-out rates.</p> <p><b>Impact:</b> New system has stripped out c.10 days of time previously required for the exchange of documents between the customer and provider. Individual providers free to decide on the timescales that suit their particular operating model.</p>
9	Amendments to the Consumer Credit Act 1974	<p><b>Intended outcome:</b> Clarification of definition of 'debtor' for a Green Deal plan in tenanted properties now enables GDFC and providers to offer finance in the Private Rented Sector.</p> <p><b>Impact:</b> Domestic landlord sector now able to use GD finance – first plan signed on 18 March.</p>
10	New signposting service provided by ESAS	<p><b>Intended outcome:</b> To increase home energy efficiency measures installed by signposting customers to local offers in their areas.</p> <p><b>Impact:</b> Since the launch of the Local Authority service on 28<sup>th</sup> January 2014, 5978 customers have been signposted to local offers that have matched their requirements.</p>
11	New ESAS Customer Support Service	<p><b>Intended outcome:</b> To reduce drop-out where customers encounter barriers (e.g. lack of information, inability to locate active Green Deal Providers) and increase the number of GD finance plans taken up.</p> <p><b>Impact:</b> Since the launch of the service on 5<sup>th</sup> March 2014, 766 customers have signed up to use this service.</p>
12	Improved Green Deal Provider search tool on gov.uk	<p><b>Intended outcome:</b> To improve the quality of information on Green Deal Providers available so interested consumers can move on to the next stage of the customer journey.</p> <p><b>Impact:</b> Improved search data has provided more accurate information on the readiness and geographic coverage of GDPs. Including the consumer search tool there have been up to 500,000 unique searches since the launch of the updated tool since 5<sup>th</sup> March 2014.</p>
13	New and improved Green Deal Advice Report	<p><b>Intended outcome:</b> Simple, straightforward information on the improvements that are suitable to a customer's home. To explain and signpost to FiTs, RHI and ECO as well as GD finance.</p> <p><b>Impact:</b> Consumers better able to understand information about their actual energy use and recommended energy efficiency measures. Improved Report will also show people what support they can receive from other household energy initiatives and incentives to enhance the experience.</p>

No	Improvements	Outcomes and Impact
14	Improved information sharing between Advisors and Providers	<b>Intended outcome:</b> Improved information sharing between assessors and providers so that GDPs are more confident to operate in the independent assessment market.
15	Insurance Backed Guarantees (IBGs)	<b>Intended outcome:</b> To give GDPs more choice and flexibility through which to procure IBGs cost effectively for the consumer. To create more competition in the IBG market. Greater numbers of insurers offering Green Deal IBGs at more competitive prices.
16	Green Deal Finance: Golden Rule	<b>Intended outcome:</b> GDFC to enable Green Deal Plan instalments to increase by 2% per year (in accordance with the current framework), which will enable customers to borrow more through the Golden Rule calculation (10-20% more GD finance over the lifetime of a 25 year loan).
17	Access to the EPC Register – easier targeting of those properties most in need of improvement.	<b>Intended outcome:</b> To enable GD participants to identify E, F and G banded properties more easily. Reduced search, and therefore operating, costs for the supply chain.
18	Green Deal Participants to have more flexibility in how they install recommended measures	<b>Intended outcome:</b> To increase flexibility for GD participants by: Making choices on the OA tool more generic (e.g. increase loft insulation instead of increase loft insulation to 270mm). Setting default savings estimates in the OA tool at Building Regulations standards (Advisors will not be expected to understand all of the specific exemptions that may apply to a particular building). Enabling GDPs to make amendments so that they can install measures that go above the minimum standards set out in Building Regulations and offer alternative options to customers. <b>Effectiveness:</b> Expected to lead to Providers offering more tailored Green Deal Improvement Packages and minimise the number of Plans “failing” by offering a greater level of precision for the savings calculation.
19	Green Deal finance available for more measures	<b>Intended outcome:</b> A greater number of measures are selected within Green Deal Advice Reports and taken forward into Plans.