

January 2012

The Green Deal and ECO in London

Briefing Paper One: Policy Overview

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As part of a drive to improve the energy efficiency of UK buildings, the Government has recently proposed two new major policy instruments, created as part of the 2011 Energy Bill. The Green Deal and the Energy Company Obligation (ECO) are expected to come into force in late 2012/2013. Both have the potential to deliver significant additional funding for energy efficiency improvements and both will have significant implications for London practitioners.

What is the Green Deal? ⁱ

The Government's flagship Climate Change policy initiative, the Green Deal, is theoretically a simple mechanism that enables a household or business to install energy efficiency measures - such as loft or cavity wall insulation, or a more energy efficient heating system - to their property at no upfront cost on a pay as you save basis.

As such, the scheme's 'golden rule' stipulates that only those properties projected to realise a total long-term saving on their energy bills greater than the installation cost of the efficiency measures will be eligible.

Repayments will be made via a consumers' energy bill, and will be attached to the property rather than the individual. Therefore, if the original occupant moves property before the full cost of the measures has been covered, responsibility for payment transfers to the new bill payer.

In this way, the Green Deal mitigates against the risk of undertaking a costly 'eco-refurbishment,' only to move to a new property a few years down the line, before the process has recovered its cost through reduced energy bills.

It is hoped that eliminating this risk will stimulate a new market for energy efficiency improvements - bill payers can achieve instant savings on their bill at no upfront cost and with no worries regarding ongoing liability for payment beyond their use of the property.

In this way, Government hopes the scheme will unlock 14 billion pounds worth of energy efficiency improvements, reducing carbon emissions, alleviating fuel poverty and cutting fuel bills via market forces, freeing up money available for subsidies to be concentrated on carbon reduction initiatives that cannot be privately financed (see ECO).ⁱⁱ

Green Deal Providers, with whom customers will legally enter into a Green Deal agreement, must be registered with the Green Deal administration body to be formed by the Department for Energy and Climate Change. There are different options for how they can engage with the Green Deal process. For example, providers can carry out the measures themselves, and engage directly with the customer, or they can act purely as the counter-signatory on the contract, outsourcing functions such as assessment, installation, or customer service.

Assessors and installers must also be accredited by the scheme's administrator. Energy suppliers, supermarkets, high street home improvement chains and local authorities have already been suggested as potential Green Deal providers. Crucially, the consultation states that there will be no guaranteed reduction on energy bills included as part of the Green Deal, because these are contingent on the household's energy use, and on the prices set by the energy supplier.

What is ECO?

The forthcoming 'Energy Company Obligation' or ECO, will replace existing supplier obligations from 2013. Proposals are subject to consultation, but currently require energy suppliers with a customer base of over 250,000 to meet two targets in terms of 'carbon saving' and 'affordable warmth.' Collectively suppliers will need to deliver 0.52 million tonnes of carbon reduction per year, and a £3.4 billion reduction in notional fuel bills by 2015 as a result of funded measures. It is estimated that this will represent around £1.3 billion of investment per year, which will ultimately be funded from the energy suppliers'



customer base as the costs are covered through increased energy bills.

The carbon saving target is designed to focus primarily on supporting those households who live in hard to treat homes and cannot fully fund energy efficiency improvements through Green Deal finance alone.

To meet their ECO carbon saving target, suppliers will have to fund Solid Wall Insulation (SWI) measures, or a package of measures including SWI. In many cases, the carbon saving target will work alongside the Green Deal, with the ECO funding used to cover the shortfall between the long-term projected saving on energy bills and the upfront cost of the measures (i.e. for properties that will not fulfill the golden rule).

For the affordable warmth target, suppliers must fund measures that enable low-income or vulnerable households to reduce the cost of heating their home. A vulnerable household is classified as one containing old people, young children, or disabled residents. Crucially, the consultation paper proposes that the 'Affordable Warmth' target will focus solely on the private sector, which has not had access to the same funding (for example the Decent Homes Programme) as social housing.

How will ECO be delivered?

With the Community Energy Saving Programme, a previous supplier obligation, suppliers sought to work with external partners, such as housing associations and local authorities, to identify eligible households and achieve cost savings by carrying out measures on a larger scale. The same principle is encouraged for ECO, again with the intention of enabling community-wide energy saving projects, however there will be no obligation for suppliers to work with councils or social landlords.

ECO is also expected to dovetail with the Green Deal. Green Deal Assessors will be required to inform eligible households of any measures to which they are entitled under ECO.

In addition, the DECC consultation paper proposes an online 'brokerage' mechanism through which Green Deal providers can bid for ECO funding, and carry out the works alongside Green Deal measures. This is expected to provide competition amongst providers, bringing down the cost of ECO measures, and achieving better value for the bill-payers who will ultimately be liable for them. In order to ensure that energy suppliers do not simply use ECO funding to supplement their own Green Deal projects (many energy suppliers may take on the role of Green Deal providers), the Government is proposing to mandate a commitment that at least a proportion of their ECO target will go through the brokerage system 'blind' (ie suppliers will only be able to offer their funding to the Green Deal provider who offers the best value for money, without seeing who they are).

What role can London Boroughs play?

The Green Deal and ECO consultation paper highlights a number of different opportunities for Boroughs to be involved in Green Deal, ranging from promoting it to local residents, through to taking on the role of Green Deal provider themselves, signing up participants and delivering measures either directly or through commissioned partners.

A number of the specific roles that London Boroughs could play in the delivery of Green Deal are summarised below.

- **Delivering economies of scale:** The Consultation paper sets out the Government's vision for Green Deal roll-out on a street-by-street basis in order to achieve economies of scale. This approach could substantially increase the number of households able to access the scheme by fulfilling the golden rule – The Sustainable Development Commission estimated that the per-unit cost of energy efficiency measures to individual households could be cut by up to 30 per cent if carried out to scale across an entire neighbourhood. London Boroughs, and the multiple communication channels available to them, are well-placed to



coordinate this process. Through their own managed social housing stock, or working in partnership with social landlords, Boroughs could also use social housing to create an initial market for the Green Deal in London.

- **Credibility and trust:** Furthermore, research from YouGov indicates that local authorities are far more trusted by potential Green Deal customers than likely private sector providers, and are therefore better-placed to create the demand for the scheme necessary to realise the envisaged carbon reduction.ⁱⁱⁱ
- **Additional incentives:** – The YouGov research also highlights the fact that the Green Deal offer on its own may not be enough to encourage consumers to participate. London Boroughs are in a position to offer a number of attractive incentives, such the possibility of a council tax rebate for significant reductions in household carbon emissions, which 49% of participants said would make them more likely to sign up to the scheme
- **Education and behaviour change:** In order to realise the savings on their energy bills made possible by the Green Deal measures, consumers will need to heat their properties in an informed, responsible manner. Education and advice will provide a crucial role in this respect – again councils trusted position in the community could be an asset in this respect, and they also have an interest in ensuring that households across their area reduce their carbon footprint and do not waste money on energy bills that would otherwise continue to circulate within the local economy.
- **Local Market Intelligence:** London Boroughs potentially have a variety of data sources available to them that can be used to build up a database of the characteristics of the local housing stock – their own previous energy efficiency measures, council tax data or planning information for example. The DECC consultation also states that

the Government plans to retain the Home Energy Conservation Act, which requires local authorities to record and report on home energy efficiency data for their area. This will be of considerable use in identifying households eligible for the Green Deal or ECO, and would therefore be of great value to Green Deal providers

- **Facilitating delivery** – London's particular characteristics add particular costs and risks to delivery of home improvement works such as energy efficiency measures. London Boroughs exert some influence over many of these areas, and are thus positioned to minimise or mitigate the costs and risks.
- **Facilitating partnership relationships** – Boroughs work with a wide variety of organizations – community groups, schools, residents associations etc – and therefore already have strong relationships and forums for communication across their area. These links could be used to promote and endorse the Green Deal or ECO, enabling more people to access the schemes.
- **Taking an innovative approach** – The DECC consultation highlights the new 'general power of competence' granted to local authorities as part of the 'Localism Act.' This gives councils the power to do anything that is not specifically prohibited by law. London Boroughs may seek to exploit their new power in order to encourage or deliver energy efficiency improvements and carbon reduction initiatives across their area.

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Conclusion

London Boroughs will be critical to the successful delivery of Green Deal and ECO in the Capital, but there are a number of specific roles that they can take on depending on their circumstances and appetite for risk.

Throughout 2012, Future of London intends to examine the implementation and integration of the two schemes, with the aim of identifying practical ways in which to make the London Boroughs as 'Green Deal/ECO friendly' as possible, and to meet the carbon reduction challenge across our city.



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ⁱ For full details on the Green Deal and Energy Company Obligation, see the consultation paper at http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx

ⁱⁱ DECC, Homes and economy to benefit from energy and climate policies – Huhne, via http://www.decc.gov.uk/en/content/cms/news/pn11_096/pn11_096.aspx

ⁱⁱⁱ YouGov, *Green Deal – public appetite market research*, via <http://www.greatbritishrefurb.co.uk/images/pdfs/gbr-greendealmarketresearch.pdf>



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