



Energy and Climate Change Committee

Oral evidence: [Home Energy Efficiency and Demand Reduction](#), HC 552

Tuesday 24 November 2015

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Members present: Angus Brendan McNeil (Chair), Rushanara Ali, Tom Blenkinsop, Glyn Davies, James Heapey, Dr Daniel Poulter, Antoinette Sandbach, Julian Sturdy

Questions 89 - 126

Witnesses: **Mark Bayley**, Chief Executive, Green Deal Finance Company, gave evidence.

Q89 Chair: Good morning all. I would like to ask the witness to state his name for the record before we begin our questioning.

Mark Bayley: I am Mark Bayley, Chief Executive of the Green Deal Finance Company.

Q90 Chair: Thank you very much for coming in, Mark; it is much appreciated. Many of our stakeholders have called the Green Deal a failure. In fact, the Secretary of State, Amber Rudd, recently told us that the Green Deal Finance Company is on the way out—that may be concerning news—and that the initiative was not successful. How do you respond to this?

Mark Bayley: I was responsible for managing the financing vehicle for the Green Deal. We have set up the infrastructure for lending on a pay-as-you-save basis. That infrastructure will be fully funded for many years, funded by the book of £50 million-worth of Green Deal finance plans, so in that sense we have achieved something of lasting benefit, because as a default record of that book becomes established, in principle it can be reactivated with private sector funding and, very importantly, can contribute towards home energy efficiency.

Q91 Chair: The take-up was clearly low, so which aspects of this scheme would you say failed to drive demand? Are these not barriers that you could have anticipated before?

Mark Bayley: I think two important things did not happen as was originally envisaged. The first was that the Green Deal finance was expected to be used by the major energy companies to mitigate the cost of delivering their ECO obligations, their energy efficiency obligations. Indeed, about 60% of demand in the financial projections was sourced from

the major energy companies using our finance to mitigate those obligations. Those obligations were substantially reduced at the end of 2013 and, as a result, a large source of expected demand was not there. That is one reason.

I think the other very important reason is that Green Deal finance relied on just one channel for being distributed to consumers, and that was Green Deal providers selling in the home. Because our providers were almost entirely small to medium-sized enterprises, they did not really have the reach and depth across the country to build demand to scale. Indeed, many consumers do not like purchasing their financial products in the home. Those are the two main reasons why we did not see demand going as originally expected.

Q92 Chair: Do you feel that Green Deal finance had enough time to establish itself, and do you think that DECC may be wrong in their attitude towards you?

Mark Bayley: We did establish ourselves in terms of setting up the pay-as-you-save lending infrastructure. I think the—

Q93 Chair: Would more time have helped?

Mark Bayley: What more time will do is establish whether the default record is as low as we expect it will be. The important thing about what we achieved is that we were able to lend, in principle, to over 80% of the population, which is a substantially greater level of financial inclusion than is achieved by normal consumer credit providers. Indeed, about 30% of the population would not be able to access finance or anything like out terms. With that wide level of financial inclusion, it is going to be very important to see how the default record established itself. So far, as I set out in my written evidence, the evidence is that the default record could be very low. If that is demonstrated over the next 18 months, we have a very important financing mechanism for home energy efficiency, which is financially very inclusive, offers much lower rates than many people in the country could get from alternative sources. I think that is very valuable and why we are not a failure.

Q94 Chair: Finally from me, we heard that the Golden Rule was fundamentally flawed and did not work at all. What would you have done differently?

Mark Bayley: What would I have done differently? In the position I am in you always think, “I could have reached decisions quicker or better”. There is always that feeling. I think what could be done differently next time—and I am very confident there will be a next time—is to reform and liberalise the Green Deal framework so that it can be accessed in a variety of ways by consumers meeting their preferences. That is a very important development. I think that the consumer protection regime, which we strongly support, is a very important aspect of the Green Deal to keep and that it should be preserved.

In terms of other things, I think the marketing and advertising of pay-as-you-save needs to be fed into the market, alongside the market’s capability of delivering pay-as-you-save finance. I think there was a disconnect between the marketing and advertising going into the market and what could be supported by the participants.

Q95 Chair: I am sorry, this is the final question. Why are you so confident there will be a next time?

Mark Bayley: Because I believe over the next 18 months the default record will be established and prove itself to be very much lower than the normal experience in consumer finance. That means that the vehicle we have set up could continue to be used to finance energy efficiency for a very large proportion of the population, and substantially on better terms than they could obtain otherwise.

Q96 Antoinette Sandbach: Clearly one of the barriers to take-up, particularly for higher income households, was the level of interest rates you charged. I think you said you were able to lend to over 80% of the population but, in fact, 78% of your applications came from those on incomes under £30,000.

Mark Bayley: Yes.

Antoinette Sandbach: Were you not missing out on a large proportion of the population that could afford to pay but would not take out your product?

Mark Bayley: Our rate was not subsidised. I think people who had savings naturally would choose to use their savings ahead of borrowing money, and people with the best credit ratings would be able to obtain those headline rates that you might see advertised on the Tube or elsewhere, and they—

Q97 Antoinette Sandbach: Sorry to interrupt you, but would it not have been cheaper for them to borrow on their mortgage at 3 point something per cent?

Mark Bayley: Only a third of households have mortgages.

Antoinette Sandbach: That is a pretty substantial number of households.

Mark Bayley: Yes, but when we looked at it, for the ticket size of the loan size that we normally advance at around £3,500, in many cases, because you have to pay a fee to increase your mortgage, the all-in rate would work out not much cheaper or about the same cost as we have. Some mortgages would offer a better deal for a bit of a top-up; others do not. A large proportion of the population do not have mortgages and that is why our finance was so important, so we are not for everybody all of the time but we were for a large proportion of the population that could not access finance or, if they could, the rate would be very much more expensive than what we offered.

Q98 Antoinette Sandbach: Can you remind us what proportion of the population you anticipated were going to take up Green Deal finance and what proportion did?

Mark Bayley: That is difficult to answer, because clearly the forecasts that were prepared by the founding investors in the company were not honoured in reality, and there are a whole range of reasons. I think what was very interesting is that in the book we built up about 25% to 30% of the population are not able to access finance, or indeed they cannot access finance on reasonable terms. About 27% of the finance in our book was to that section of the population who otherwise could not obtain finance for energy efficiency in their homes otherwise, and I think that was a very important achievement. I do regret that we did not get to scale but, as I said, in time it may be possible to do that.

Q99 Antoinette Sandbach: You identified a number of factors for lack of success. Was one of those the fact that the loans were attached to the property and not to the mortgagor?

Mark Bayley: That clearly needed explaining. In the documentation we prepared for Green Deal providers, we were very careful to make all those things very clear. There was some press comment about whether it would be a barrier, for example for people taking out mortgages. The Council of Mortgage Lenders said they did not see any reason why Green Deal finance would be a barrier. As I said, our loans were typically about £3,500 and, therefore, very much a very small proportion of the overall costs in buying a home and taking out a mortgage. Of course, if a home is equipped with energy efficiency measures, it is a better home in principle.

Q100 Antoinette Sandbach: Can I come back to those interest rates? Clearly those on lower incomes qualify for ECO support from the energy companies, so the fact that finance is available to them may not be relevant if they can access support mechanisms in other ways.

Mark Bayley: Yes. There were several components of the ECO scheme, and you are absolutely right that there was a proportion for the fuel poor and the vulnerable that we would not be lending to anyway. By and large, that section of the population could expect to get energy measures installed for free. Where we kicked in was for the people who would not necessarily qualify for that level of support but could qualify for other components of ECO or other energy efficiency schemes—for example, photo-voltaic. We could provide finance that bridged the gap between what those schemes offered and what the overall cost of the measure was.

Q101 Antoinette Sandbach: Going forward, what do you feel needs to happen in terms of the interest rate offered in order to attract a broader range of customers?

Mark Bayley: In the financing we closed at the beginning of 2013 we had a relatively high rate reflecting the risks of a start-up venture. As I said, we were not offered a subsidised rate. We pay rates at market. Now that we have established ourselves and the default record is beginning to be established, I believe that—particularly with the movement in underlying yields—in principle, we could finance the book at least 2% less than what we did at that time and, because we are a not-for-profit, we would pass all that benefit to consumers and therefore lower our rates by around 2%.

Q102 Julian Sturdy: If I could come in on that point, at the start what rate were you borrowing money at on the open market to finance that 6%?

Mark Bayley: We had investor capital that was relatively expensive, but the investors, because they were committed to the whole venture, offered a much lower rate than we could get on the open market. To all intents and purposes, our all-in cost to capital was around 6.5%, and to that we added a margin for default risk to get to the interest rate that we offered in plans of 6.69%. To that we offered a set-up fee and—

Julian Sturdy: You are saying that in the market you were basically borrowing at 6.5%.

Mark Bayley: Around that level, yes; the all-in cost of our capital.

Q103 Julian Sturdy: Obviously we are talking with base rates—the Bank of England interest rate—at 0.5%, so where can you borrow now?

Mark Bayley: In the analysis we prepared for our financing options, in principle, if the default rate is established to be as low as we expect, the analysis we did reckoned that we

could finance ourselves about 2% lower cost of funds. Of course, that would not only make the finance that we could offer consumers more competitive, but increase the size of the plans that we could offer.

Q104 Chair: Why was the Green Deal so complicated to start off with? Can you tell us exactly what you did to simplify the Green Deal process?

Mark Bayley: There is necessarily a lot of backstage complexity in the Green Deal, because the financing plans are set up using the major energy suppliers' billing systems and administered through that. The consumer does not necessarily need to be aware of that complexity. The steps we took were, first of all, to deal with the documentation issue. In legislative terms, the Green Deal serves two masters—the Energy Act on the one hand and the Consumer Credit Act on the other—and writing a finance agreement that satisfies both legislative requirements was a very complex exercise. Not only did we take on that task—

Q105 Chair: Was that a flaw in the provision of the Green Deal then?

Mark Bayley: It was a natural consequence of setting up pay-as-you-save financing. You had to do it, but of course it created complexities because it was a unique, innovative form of financing that was not encompassed by the Consumer Credit Act. We had to deal with that complexity, so we drafted the documentation, we made it absolutely clear, and then we consulted with Which? and with Consumer Futures. We shared it with the FCA in order to get all their comments on it to ensure that what we finally produced was understandable for the consumers. That was the first step we took.

The other steps we took were that, after we became established, the selling process that had been designed for the Green Deal envisaged everything happening sequentially. We reconfigured that so that the sale of a finance plan could happen in parallel, subject to the credit test being satisfactory and subject to the 14-day cooling-off period. That meant we could significantly reduce the number of visits that Green Deal providers had to make to a consumer's home to get them to sign up to a finance plan.

We also implemented a dummy credit check thing, so that consumers could establish whether they were likely to pass the credit check or not before they went ahead with it and left a footprint on their credit record. Ultimately, in many cases we were able to establish what we call "Green Deal in a day", whereby consumers could sign up for a finance plan in one day, and there are other measures we took.

Q106 Antoinette Sandbach: I want to come in at his point. To what extent did cowboys who came into the market providing dodgy Green Deal reports to consumers undermine confidence in you and your financial offer and how did you try to deal with that?

Mark Bayley: The main party that dealt with cowboys—as you put it—was the Green Deal Oversight and Registration Body. That was pretty effective in policing it and, indeed, on a number of occasions we had to help the police and Trading Standards deal with rogue operators. That did happen. I am confident that the policing mechanism from the Oversight and Registration Body was effective, and I believe it was very important that it was there.

How much did it affect attitudes towards our finance? Perhaps at the margin, but I think there were two opposing things going on. One was the concern about rogue operators, but on the other hand there was a very high level of consumer protection set up in the Green Deal framework administered by the Oversight and Registration Body, with the ultimate recourse to the Green Deal Ombudsman, so that could only give confidence.

Q107 Antoinette Sandbach: Are you saying that you feel that message got through to consumers?

Mark Bayley: I think it was beginning to. I think that—

Antoinette Sandbach: Sorry to interrupt you. Effectively, you are saying that you accept that it did not, although there was some breakthrough at a point.

Mark Bayley: Yes. In terms of getting consumers to purchase finance plans, I think that there were perhaps many other messages that needed to get through if they were to do that. I think consumer protection was terribly important to the company. I do not think that it necessarily became a selling point for Green Deal providers selling finance plans to consumers, but I believe it was important for the integrity of the scheme and, over time, it will prove to be important.

Q108 Julian Sturdy: Leading on from that, we heard from genuine Green Deal providers that they faced considerable legal and administrative barriers in gaining their consumer credit licence. Was all that necessary, or is it something that could be relooked at in the future?

Mark Bayley: The consumer credit licences are obviously the province of the Financial Conduct Authority and, certainly, they came in with an authorisation regime that was much more demanding than the previous OFT regime. To that extent, I think some providers would have found that tough, but rightly so. We held conferences for providers where we had experts in as well as the FCA to talk to Green Deal providers about the FCA's expectations of conduct in the market, particularly in treating customers fairly. We did not necessarily solve the problem, but we certainly helped providers and, indeed, provided a large number of briefings on what Green Deal Finance did in terms of administering the finance agreements so that the providers could look to that material in making their applications for authorisations.

Q109 Julian Sturdy: How many providers did you lose in that process?

Mark Bayley: Very few, and—

Julian Sturdy: Do you have a figure?

Mark Bayley: Between six and eight, and I am not sure that was necessarily a bad thing; probably a good thing in a regime that is demanding enough that people at the margin are not signing up. We are getting many people. Since the general election about eight Green Deal providers were signing up and were very interested to come into the market, so I do not think it was a major barrier.

Q110 Julian Sturdy: You do not think it stopped small or medium to large-size businesses from coming in?

Mark Bayley: No, except at the margin.

Q111 Julian Sturdy: Yes. We also heard there was little value last week in the Green Deal advice report. How would you respond to that?

Mark Bayley: The cost of the advice report—over £100—had to be borne. Many providers took that cost. In other circumstances consumers paid. The Department of Energy and Climate Change has made changes to and evolved the advice report. In principle, I believe it is very useful. I do not know the extent to which consumers relied on it in making their decision, but in principle they would have done. We have not done the research—and we are not a consumer-facing organisation—to find out whether it assisted their decision-making process against all the other factors.

Q112 James Heappey: Mr Bayley, when the Green Deal Finance Company was set up, what did you understand the company's responsibilities to be with regard to stimulating demand?

Mark Bayley: None, in a word. Our job was to set up finance and administer Green Deal finance. We did not have a consumer-facing mandate and our job was simply to be the vehicle to do those activities. When demand failed to materialise, in the summer of 2013, we decided that we had to get out there and try to change things. We did that by looking at the process and the documentation I have talked about, and generally by finding out where we could work with people to get demand going. Early in 2014, when the market was in a very difficult state and we had a very low level of applications, we launched a Green Deal provider assistance programme to help a large number of small to medium-sized enterprises into the market to sell finance, so we had quite a significant role in trying to stimulate demand.

Q113 James Heappey: When you first set up you had no marketing director and no sales director.

Mark Bayley: That is correct, because our role was not to do that. Ours was a back-office function, and we had to go front of house and look at—

Q114 James Heappey: As the Chief Executive, did any alarm bells ring that you were setting up a back-office function with no shop window? How did you understand that was going to be provided? How was it going to be sold?

Mark Bayley: In the role that was being set up—the role of Green Deal Finance—the very important role of Green Deal Finance was to mitigate the energy efficiency obligations of the major energy suppliers. They were going to be generating about 60% of demand, and the expectation was they would be delivering a large amount of the marketing and messaging around the whole Green Deal.

Q115 James Heappey: With the benefit of hindsight then, if the Green Deal Finance Company was to be revived, presumably you would strongly encourage there to be an embedded marketing and sales function within the company?

Mark Bayley: Clearly there has to be a marketing and sales function in the process. Whether it needs to be the responsibility of the people running the financing vehicle or not

depends on a whole range of policy decisions, for example on who is expected to be delivering energy efficiency.

Q116 James Heapey: You accept that collectively, between the finance company, the energy providers and DECC, there was a failure to stimulate demand and engage the consumer?

Mark Bayley: I have talked about the main reason demand was not there, but clearly there was less economic incentive on major energy suppliers to go out and build demand, because the ECO obligations that our finance would mitigate were substantially reduced towards the end of 2013. So it was not just marketing and advertising. There were things that could be done better. This was a new programme and there were many things to be learnt from it, but there were other factors behind the absence of demand against the forecasts that were originally envisaged.

Q117 Antoinette Sandbach: Excuse me for jumping in, but only 13,800 plans were activated against an estimate of millions, so what happened?

Mark Bayley: I took over as Chief Executive in October-November 2012. I inherited a set of forecasts prepared by the investors that were built before engagement in the market with the finance, and there are a whole range of reasons why reality did not turn out like the forecasts, some of which I have alluded to in my written evidence: mainly less economic incentive on the major energy suppliers, restriction to one channel of demand and—back to the earlier point—I think that if the interest rate had been lower it could have stimulated more demand.

All that said our job was not to sit there and say, “Oh, dear, demand is not good”. We went right out there. We initiated the assistance programme. In January 2014 we were selling only about 60 financial plans a week but, 18 months later, in the summer of this year, there were about 667 plans a week, or £2.5 million-worth of applications a week, so a tenfold increase in volumes and a tenfold increase in the book. We were making headway to address the problem of demand. It can be addressed.

Antoinette Sandbach: Despite the change in ECO?

Mark Bayley: Despite the change, because there are other schemes, such as the feed-in tariff and so on.

Q118 Antoinette Sandbach: Why could that not have been done earlier?

Mark Bayley: I think because we were working through a large number of SMEs who were selling effectively but had limited scale. These things will take time. In many worlds 18 months to get from 60 plans a week to 667 plans a week is very good going. I think the problem is that the expectations were very, very high and it is against those expectations that people feel that things were not done quickly enough or in good enough time. But I think the reality was we made very good progress.

Q119 Chair: Did ECO add another layer of complexity, because I have heard a lot of complaints within the industry, from those installing, about ECO? Did ECO make life difficult for you?

Mark Bayley: One of the things we may not have fully understood is that, faced with an obligation, companies subject to an obligation will act to close out the obligation as quickly as possible.

Chair: That includes spikes in the market?

Mark Bayley: Partly, but the pace of closing out the obligation means that they were not necessarily going to spend too much time selling the finance to mitigate that obligation. It is more important to close it out than to reduce its cost, so that was one problem we had from ECO. I also think the consumer was faced—as I think you were alluding to—with a number of different schemes running; ECO, the Green Deal Home Improvement Fund and there was Finance. I think there was further work to be done to co-ordinate how all those different schemes were presented to consumers.

Q120 Glyn Davies: Can I ask you about incentives? There is an incentive regime that I think you were talking about in the past. In any future scheme how do you see that working most effectively? We have heard about stamp duty; certain things we have heard about, and salary set-aside would be another one. There could be a whole variety of different ways of providing incentives that were not included in that. Which do you think are the best of those that might be included in future?

Mark Bayley: As you say, if you are going to get reduction in carbon emissions through home energy efficiency, you need to put incentives on the table to bridge the gap between what is an economically rational thing for consumers to do and the things they need to do to reduce carbon. As you have said, those incentives can be provided in a number of different ways: council tax, income tax, a levy on bills, stamp duty and so on. There are many different sources and they will appeal to different preferences. Homeowners will appreciate a stamp duty reduction if they are moving, but that does not appeal to the 16% of the population of households in private rented accommodation.

Whatever the incentives you put on the table if you have a financing scheme, such as we have through pay-as-you-save, that has a very high level of financial inclusion but offers low cost, with much lower rates than many of the population could get otherwise, you are going to reduce the cost of those incentives to achieve carbon reduction and—to answer your question—that is the very important role we could have in the future.

Q121 Glyn Davies: Which do you think are the best? We have heard a few examples. Income tax is a possibility, as an incentive regime avenue. If you were talking to Government, though, which would you say is the best incentive to persuade people to sign up?

Mark Bayley: I don't want to dodge the question, but I am agnostic about what incentives there are. As long as the incentives are there, our role is to make the most efficient financing available, which I believe we are able to do for many, many people.

Chair: Not often do I get agnosticism in answer to the question. James, we are drawing tight on time, just to remind you.

Q122 James Heappey: DECC has suggested that the Green Deal Finance Company is still viable if an investor came in and picked it up. Do you agree?

Mark Bayley: Very, very much so. Indeed, we are having conversations with a number of parties that have expressed interest. Indeed, as I said at the outset, the loan book of £50 million will fund the pay-as-you-save infrastructure for many years to come, so it is an enduring part of the energy efficiency landscape and that is very important.

Q123 James Heappey: Do you see a contradiction in that: on the one hand DECC is welcoming people to come in and pick up the infrastructure and take it on, but on the other hand the narrative is that the Green Deal failed? Is that an irreconcilable friction?

Mark Bayley: No, but what the Green Deal Finance Company needed to get to scale was finance, which could only be provided by Government and those committed private investors who had skin in the game. That was very necessary for the development period of the company, but once the default record is established, and with the infrastructure being fully funded, it is much easier for the private sector to come in and start financing further development of the programme.

Q124 James Heappey: If you were the Secretary of State, what would you do now to build an energy efficiency market for the able-to-pay sector?

Mark Bayley: Clearly that is something to address to the Secretary of State, but what I would say to the Secretary of State is this: we have infrastructure for a new type of financing for home energy efficiency. It is there for the future. As and when policy returns to using home energy efficiency as a means of achieving carbon reduction, the very efficient low-default financing that we can provide will reduce the cost of any incentives that bill payers or taxpayers need to put in to get householders to implement the necessary measures to reduce carbon emissions.

Q125 James Heappey: One final question: it has been suggested in a number of places that perhaps this could be something that is done in a distributed way; that local authorities, for example, could be facilitating these finance agreements. Is that something you could see happening?

Mark Bayley: Yes, indeed, and I think it is part of the comments I made about liberalising the framework. Simply selling finance through SMEs selling in the home is very constraining to what could be done if the framework was liberalised. I believe that, if pay-as-you-save lending is to be reactivated, a lot of work should be done in looking to try to maximise the number of channels that could be used to distribute the finance.

Q126 James Heappey: Would that be a sort of B-to-B relationship; the book remains centralised and then local authorities finance their schemes from you?

Mark Bayley: It could be done that way, because the more we can get the book to scale the more efficient our role of administering plans becomes, and at much lower cost, yes.

Chair: Thank you very much, James Heappey. We have come to the end of our session on the Green Deal. Mr Bayley, thank you very much