

Public Accounts Committee

Oral evidence: Household energy efficiency measures, HC 971

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Members present: Meg Hillier (Chair), Deidre Brock, Chris Evans, Caroline Flint, Kevin Foster, Mr Stewart Jackson, Nigel Mills, David Mowat, Stephen Phillips, John Pugh, Karin Smyth, Mrs Anne-Marie Trevelyan

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Michael Kell, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Witnesses: Dr Jan Rosenow, Senior Associate at the Regulatory Assistance Project and Senior Research Fellow at CIED, University of Sussex, Peter Smith, Head of Policy, National Energy Action, and Lawrence Slade, Chief Executive, Energy UK, gave evidence.

Chair: Good afternoon, everyone, and welcome to the Public Accounts Committee. Today we are considering household energy efficiency measures, known as the Green Deal, which was a major plank of Government policy in the last Parliament, and we are looking at the NAO Report that considered that. We have two panels of witnesses. On the first panel, we have witnesses to explain, from a non-Government perspective, how it works. Dr Jan Rosenow is a senior research fellow at Sussex University; welcome, Dr Rosenow. Peter Smith is the head of policy at National Energy Action, and Lawrence Slade is the chief executive of Energy UK. Welcome to you.

In fact, we have two Reports by the NAO. One is on the Green Deal and ECO—the energy company obligation. We try not to talk in jargon or initials in this Committee, even though I just did, so could you bear that in mind when giving your answers? We are also looking at the investigation by the NAO into the Green Deal Finance Company, and we have witnesses on the second panel who are from the Department and the finance company.

These Reports do not make happy reading. All the concerns were predictable and, indeed, were predicted by a number of us some years ago. CO₂ savings are significantly lower than in previous schemes. Only 14,000 households took out a Green Deal loan. They were worth £50 million in total, compared with the forecast of £1.1 billion. In fact, in my constituency, only three were taken

out. And taxpayers stand to lose, especially as the Government expect to recover only £23.5 million of the £48.5 million that was loaned to the Green Deal Finance Company. So this has not been a great success; it is not necessarily connecting with consumers. The point of the first panel is to hear what you think went wrong and what you think might work. Bear in mind that after your panel Government officials will be sitting there, answering questions, so this is your chance to tell us what might work well in future as well. I should also say that our hashtag for today is #energyefficiency. I will ask John Pugh to kick off

Q1 John Pugh: Let us start with Dr Rosenow and maybe work along the panel. We all agree that the Green Deal finance scheme has not gone as well as expected and it has been abandoned by the Government as a failure. The ECO scheme has achieved something, but it might not be regarded as a complete success. Can you give your view on how far either of the schemes has failed? If they have failed, what are the major reasons for that?

Dr Jan Rosenow: I do not think that ECO has failed in what it set out to do. It had a completely different focus from the obligations before 2013. The intention of ECO was to target hard-to-treat solid-wall properties, so it was always going to be more expensive. The impact assessment that DECC produced back in 2012 shows this: per tonne of carbon, more money needs to be spent. So I think in that regard ECO has not failed; it was always intended to focus on more expensive savings. For the Green Deal, I share the view—

Q2 John Pugh: So you are saying it has not failed.

Dr Jan Rosenow: ECO has not failed on that account. On the Green Deal, many figures were thrown around when it was launched, but one of which was 14 million homes by 2020, for example. Comparing the actual take-up with what the intentions were, clearly that is a failure. I do not think that says that the concept of the Green Deal necessarily failed; I think the way it was designed and promoted led to the low uptake, which can be described as a failure.

Q3 John Pugh: What was wrong with how it was designed and promoted?

Dr Jan Rosenow: You could start with the interest rate. I think 7.5% is attractive for a niche segment in society—those with low credit ratings who would not get access to credit elsewhere—but for the vast consumer market, 7.5% is not an attractive interest rate. That is the first; then there is the way it was promoted. It was promoted purely as a financial proposition—you can save money and you can save energy—but it was not promoted as something that could increase the value of your property or increase your comfort levels, which are the sorts of messages that are used across the world to promote these schemes. So I think the focus on finance was misguided. There should have been broader messaging around the Green Deal.

Peter Smith: Starting with the Green Deal and ECO, just to give you a little context, if we begin this process of reviewing what may have gone wrong, it started really in the 2010 spending review, where the decision was taken to move away from Treasury-funded support for energy efficiency through the previous Warm Front programme. Where we previously had two larger supplier obligations, we tried to combine all of that within one programme. At the time, we felt that

challenge was going to be fraught with difficulty. We feel that the huge drop-off we have seen in energy efficiency rates since the launch, and the Green Deal, has borne that out.

Dealing specifically with those two mechanisms, our prime concern about the Green Deal was an erosion of consumer protection for the householder, whereby the installation of energy-efficiency measures was tied to the energy meter and, if the tenant or householder failed to pay, they would be disconnected. I think pretty early on we recognised that there were some serious flaws with that for the constituents who we most care about, who are low-income and vulnerable energy consumers.

One of the main challenges was the fact that low-income households tend to have lower than average energy use, and therefore the theoretical expectations that you might associate with energy saving would not necessarily apply for those types of households. At the same time, we talk about the ECO—the energy company obligation. While it has delivered alongside the metrics that the Government laid out and the targets that it set, we would argue that it is still not addressing the main issue, which is to provide people with warmer, more comfortable, easier-to-heat properties. That is due to the accessibility of that mechanism currently, and there is a lot of work going on within the Department of Energy and Climate Change at the moment to ensure that its successor is a bit more effective at helping the people who need it most.

Q4 John Pugh: So what needs to be done? I am not clear about what you are saying about how ECO could have been tweaked to be more effective.

Peter Smith: We would advocate three key steps. Fuel poverty needs to be an explicit focus of the scheme. It was a subset of the programme.

Q5 John Pugh: Explicit and separate?

Peter Smith: We would urge that the whole of the supplier obligation from 2018 needs to be targeted at fuel poverty—the whole of the programme, not just a subset of it. That can avoid some of the risks around low-income consumers paying for a policy that they don't benefit from.

Secondly, we think there needs to be a guarantee for the most vulnerable households. One of the key failings of the policy at the moment is that, even if you are eligible for support, you are not guaranteed to get anything, even though you are contributing to the cost of the policy. That is particularly acute for vulnerable households. For instance, if you are a health worker and you are trying to refer people towards a scheme, unless there is certainty that the householder is going to get that assistance at the end of the day, GPs are not going to make referrals into that programme, so there is a failure to align energy efficiency with preventative measures within the health sector.

The final one, which is borne out by the NAO Report, is the need to monitor closely any requirement to make capital contributions towards the cost of the programme. Failure to do that can result in large variations in the capital contributions that are being sought from households. If the focus of the policy in the future is going to be on low-income households, how much you ask those households to contribute out of their own pockets is a key consideration, which needs be monitored.

Q6 John Pugh: Have you any sense from the people you deal with of how big those contributions can be at times? The Report says that the Department hasn't.

Peter Smith: That is absolutely right. Something we were urging the NAO to investigate is the extent to which consumers who are already paying for the policy through their bills also have to provide up-front capital towards the cost of those energy-efficiency measures. There is a complete gap in knowledge at the moment.

Q7 John Pugh: A vacuum.

Peter Smith: Yes, a vacuum. We have been urging quite strongly that the scheme administrator needs at least to monitor those capital contributions, if not limit them entirely.

Lawrence Slade: I would agree with a lot of the comments made so far. One of the key points that distinguishes ECO and the Green Deal from their predecessor schemes is that you are moving from what was essentially a free-to-all market, in which insulation of various types was given out free of charge for well over a decade, to something that was trying to create an able-to-pay market, as well as a more targeted and defined free market specifically to houses that were harder to treat. Therefore, the cost of each individual measure was going to be more expensive.

There are clear reasons why you could argue that the ECO scheme was not as successful as CERT and CESP and its predecessors. However, I do not think the Department gave enough thought or time to how you actually sort those schemes out and ensure the consumers are ready for such a significant change—for example, by saying to someone, “One week this will be free, and the next week this will be x-hundred pounds,” and testing how consumers react to that. I think the Green Deal was certainly rushed to market. We support the idea of establishing an able-to-pay market. It is absolutely the right thing to do, but the Green Deal was too rushed to bring that forward. The interest rate issue can be a bit of a red herring. It wasn't the sole reason why the Green Deal didn't work. There was a lot of complexity sitting behind it, and it needed a lot more time to ensure that consumers understood the proposition that was being put before them.

Going back to the low-hanging fruit—the number of roofs and cavity walls that have been done—we have a significant need to deal with solid walls in this country. There are still several million solid-wall properties that have to be done, but there has to be an acceptance that they cost more than the easy-to-install measures that we have seen so far. There is also a question of whether those costs should sit on consumer bills or whether they should be part of general taxation, from a Government point of view. That brings into question how those measures are paid for and installed.

I agree with Jan that, ultimately, ECO was a success. It has made a notional £6.2 billion-worth of savings. We shouldn't completely run away with the idea that it is a failure, but we should look at the structure of the market and the type of measure that you are looking at paying. As Peter says, we should look at how they are directed to the people who need it most. If it's public money, logic says that it should be going to the people who can benefit from it most and fastest.

Q8 John Pugh: May I ask one further question? The prime movers in this scheme were obviously the energy companies themselves. May I invite you to comment on the role that they played and how the Government could better use them or better employ them to achieve its policy objectives?

Lawrence Slade: Any energy company that is under an obligation—there are a great many of them now—has a responsibility to its customers and shareholders to meet it at the least possible cost, to make the programme as efficient as it possibly can. I think what happened with the Green Deal and ECO was that the forecast was to see a much larger uptake of Green Deal funding—to see more blended funding coming in. When that did not happen, an energy company’s responsibility is to look at its obligation and say, “Okay. How can I best deliver this in the most effective manner?” I think where things went wrong in terms of the relationship with Government was in looking at the cost of the scheme and how quickly we acted to change the cost of the scheme; and I think the issue in the future is how you look to fund those schemes to make sure they are delivered effectively.

Peter Smith: The issue is not the inappropriate nature of the supplier being involved in the process. From a fuel poverty perspective, our concern is that they are the exclusive agents of Government delivering on its fuel poverty aspiration, either through rebates, through the warm home discount scheme or, now, the energy company obligation. In other UK nations—in Wales and Scotland, for instance—they have effective energy efficiency programmes that run alongside the energy company obligation. Therefore, energy companies are not the only people that can provide effective support, and that is recognised in the policy making. We have local authorities and social housing providers all at the heart of energy efficiency in a way that we have not been able to achieve in this country for some years, much to its detriment.

Dr Jan Rosenow: Just to add to that, on the point that you made earlier about the contributions, we have some evidence from previous schemes. We know that, for the able-to-pay, it was usually about a 30% contribution made by the energy companies and about a 70% contribution made by the beneficiaries; it was 50% for those on a low income. This goes back to data from up to 2008, so it is not up to date, but we have some evidence on what those contributions have been in the past.

On the issue of whether the suppliers should play the role or whether they may not be the best agent to carry out the programmes, the international evidence that we have shows that they are very well placed to do that, actually. There are over 50 obligation schemes across the world that involve either suppliers or distributors. They usually reach their targets and they deliver the programmes very cost-effectively. So I think the issue is not the energy companies or distributors being involved in delivery; it is more about how we design the schemes. Back in 2012, the discussion was, “Should the Green Deal be focused on low cost or should it be a programme for high-cost measures, so people take out loans and bring in private capital to finance the more high-cost measures?” Obligation schemes are not the best tool to deliver high-cost measures, for the simple reason that few people benefit and everybody else pays—there are some equity issues around that. I think the fundamental design questions should have been addressed early on in the process.

Q9 John Pugh: You seem to be saying that the overall principles of the ECO scheme are not that bad, but if we are trying to deal with either real fuel poverty or very difficult-to-treat houses, there is an element of further state intervention over and above these kinds of mechanisms.

Peter Smith: That is absolutely right.

Q10 Caroline Flint: You have all said that the focus of the new scheme is to pay more attention to hard-to-treat properties—those solid-wall properties. Under ECO, the average number of insulations per year was 23,500, compared with 83,000 under the CERT and CESP schemes at their

peak. My information is that suppliers shifted to cheaper measures after 2014, when there were changes, which led to the figure for harder-to-treat homes being done under ECO going from 37% down to 9%. Given the expectation that solid walls were going to be the priority, what do you think influenced that change in focus and approach?

Dr Jan Rosenow: That was a political decision. Back in 2014, following the debate about energy prices—

Q11 Caroline Flint: Do you mean the price freeze?

Dr Jan Rosenow: Yes. It was in the aftermath of that. It was a political decision to then allow the cheaper measures back in and to bring down the targets. It was not a deliberate choice by the energy companies to say, “We’ll do less on solid walls.” It was a political decision, and obviously they go for the cheaper option, so if you allow them to carry out more cost-effective measures, they will do so.

Lawrence Slade: I agree completely. We had seen the costs of the scheme increase above and beyond the impact assessment from DECC. The organisation CSE estimated for us that the average cost of bills for a dual fuel customer was in the region of £62 a year under the first year of ECO, and they currently estimate that costs are around £45 per customer today. The numbers they had at the time would indicate that the scheme was becoming more expensive.

Q12 Caroline Flint: Can I follow that up? Lawrence, we obviously worked together before. I was the shadow Secretary of State for Energy and Climate Change during this period, as was the Chair before me. At that point, in autumn 2013, the Government were coming under considerable pressure about the costs of energy bills. What discussions did Energy UK and the big six suppliers have with the Government about where they could make savings on bills?

Lawrence Slade: There were various discussions around the complexity of scheme deliveries and what options there may be for changing schemes part way through.

Q13 Caroline Flint: Given that the original purpose of setting up the Green Deal and ECO was to focus in on solid-wall homes, is it fair to say that the focus shifted to trying to bring bills down, and that that distorted the scheme?

Lawrence Slade: I would say that there was a definite acceptance of the fact that solid wall and that element of the scheme was coming in as more expensive than originally anticipated. That was leading to pressures on bills. Therefore, the Government were looking for a way to even that out and bring the scheme back into its expected cost.

Q14 Caroline Flint: Can I just continue on the influence of the big six energy companies in the design of these schemes? At the time that the Energy Bill was going through Parliament in 2011 and we were looking at how the Green Deal might shape up, a number of individuals and organisations were concerned about what the interest rate would be and how it would be delivered. They were concerned because the Green Deal would be paid back against the household rather than

the person taking out the loan. It was said that that could be a disincentive because people would think that they would have to pass on a loan to a new purchaser of their home, but that was ignored. I understand that the energy companies were very keen that the loan should be fixed to the household rather than to the individual. Is that correct?

Lawrence Slade: I think there were significant concerns about how the credit function would work if it were attached to the individual, given the nature of some of the households you were dealing with. Overall, it was felt that the loan attached to the house would be the most effective way of actually running the scheme, given that the scheme was not designed at a higher-earner or a lower-earner level. It was meant to work across the board. My understanding is that that was felt to be the best option at the time.

Q15 Caroline Flint: Of course, it was being paid through people's energy bills—

Lawrence Slade: Electricity bills, yes.

Caroline Flint: —so that would make it quite nice and neat for the energy companies to make sure that it was attached to the household and therefore attached to the bill.

Lawrence Slade: I see where you're coming from; however, do not forget that there is still a cost attached to the collection of those bills and to how that money is passed back as remittance to the original loan provider. To take the stance that this was an easy option for the energy companies is definitely not correct. Setting up the Green Deal remittance service, which is still in place, actually required spending substantial sums.

It is worthwhile noting that double the number of companies are now obligated in this market since the design of ECO. You also had the fact that the scheme was designed at its start for six businesses to deliver, whereas now a great deal many more companies are involved in that market. Again, any future schemes need to be addressed in that view, but it is also worthwhile noting that the remittance system is in place, has been proven and is actually paying back loans that were made.

Peter Smith: One of the main challenges that we were highlighting during the development of the primary legislation—not even the detailed policy design that came afterwards—was the collection mechanism. Assigning debt to a prepayment meter in particular for the Green Deal charge was pretty ugly from a customer perspective if they did not meet the golden rule.

I will give you a brief example. You have £20. You put that £20 on to a prepayment card and go back to the energy meter. If you are already in arrears with your energy company, £5 of that could go down to pay the energy arrears and a further £5 could go down to pay the Green Deal standing charge. That customer is left with £10. Okay, they might be sitting in a theoretically warmer home, but they are not getting the utility out of that because they are not using the energy in the first place because they only have £10 after starting with £20. I know that is a very crude explanation of how the process works, but it was a challenge that we were trying to highlight, and it was not particularly well resolved.

Q16 Caroline Flint: At the time that this scheme was being put together, the energy companies—the big six—were not that popular, and their popularity probably went down even further during the years that followed. How do you think the public deal with an energy supplier that is charging them for energy also trying to sell them ways to save energy? Does that really work with the public?

Dr Jan Rosenow: In reality many of these schemes are delivered in co-operation with local authorities and with intermediaries—agents such as Carillion—so it is not always the energy company that is customer facing. I see where you're coming from. There are various surveys that show that the trust is not as high as it should be and therefore they may not be best placed to be the face of the programme in all cases.

Q17 Chair: Can I ask about international comparisons? Is that the model used in other countries?

Dr Jan Rosenow: Yes, and delivery routes depend on the context. Working with local actors, with trusted agents, is the usual way that these schemes are rolled out. It is not always just the energy company that is dealing with the customers.

Q18 Caroline Flint: To follow that through practically, if we are going to levy an amount of money from the energy companies—and I accept that is from bill payers—to support energy efficiency, would it be better to levy that money and deliver it to a more local partnership to deliver on the ground? They might know better where the people in fuel poverty or most at risk of fuel poverty are, or be better able to deliver a quality service.

Dr Jan Rosenow: The big difference between the levy and the obligation is that the levy has no fixed target, whereas the obligation sets a target in carbon and energy and, if you don't reach the target, there is a penalty. With the levy you are just taking a specified amount of money and putting into a pot and you don't know what is coming out of the pot. The design is fundamentally different.

Q19 Caroline Flint: But under this ECO Green Deal scheme, not only did it not bring in more private investment, but it did not deliver on solid wall insulation, and we don't have a clue how it has affected fuel poverty. Is that correct?

Dr Jan Rosenow: On fuel poverty, we are still waiting for the final assessment of ECO—

Caroline Flint: At the moment we haven't a clue. Yes, you are nodding. Is that a yes?

Dr Jan Rosenow: I think DECC is carrying out the final assessment of the operation of ECO, so we don't know yet.

Caroline Flint: I'll take that as a yes.

Q20 Chair: Peter Smith, did you want to make another point?

Peter Smith: You were asking about international examples. I mentioned earlier that we do not need to look that far afield. There are good examples of area-based energy efficiency schemes that are delivered by local authorities in Scotland, and they sit alongside energy company obligation. The heavy lifting is done through some tax funds and a combination of that working alongside the energy company obligation. We would say that, if you create a fund and a pot of money, it is easier to leverage in other forms of finance. We are finding that through the programme that we are developing called the health and innovation partnerships programme, where we are getting as much as 50% leverage.

Lawrence Slade: On the question of who is best to deliver, it is worth pointing out that over the history of the obligations, many of the energy companies have actually become more trusted in the delivery of energy services over that period of time. They have also built up businesses that are employing many thousands of people, who are delivering in an extremely efficient way the energy obligations that are set to them.

However these obligations or levies are designed in future, it would be wrong to say that an energy company should not be able to bid for that work, because of their history and their experience in delivery. However, I agree entirely with Jan that there are some great examples of where energy companies have partnered and used their administrative and staff skills to work with local authorities which, as you know, are also under extreme funding pressure, to deliver some really great schemes.

Q21 Caroline Flint: But the Competition and Markets Authority, in its most recent report, has highlighted what it sees as a lack of efficiency in the big six energy companies and that customers are paying the price for that. With this scheme, which was expecting bill payers and public money—something like £240 million from the Green Deal—to underpin it, how were you meant to know whether you were providing the efficiencies to bear down in terms of value for money? That information was not provided in a way the Department could see, was it?

Lawrence Slade: A lot of information was provided. In fact, I would say one of the criticisms of the ECO scheme was the sheer complexity of the reporting that was needed. I believe the National Audit Office's Report actually refers to that. I think a hell of a lot of the information was floating around the market. Could it have been defined in a better way? Yes.

Q22 Caroline Flint: You are right that there was a lot of information, and I agree with you completely on the complexity, particularly compared with schemes elsewhere. Regarding my question, though, regardless of the amount of information being given, it was hard for the Department to actually see which company was providing better efficiency in terms of the cost in delivering these schemes.

Lawrence Slade: I believe they did have access to efficiency information in terms of the number of measures delivered.

Q23 Caroline Flint: Have you, as the chief executive of Energy UK, ever seen anything from the Department that shows how different suppliers were providing efficiency?

Lawrence Slade: That would be a breach of competition law.

Q24 Caroline Flint: What—seeing which ones were giving better value for money on their schemes?

Lawrence Slade: Yes, that is not my business.

Q25 Chair: On public money? I will put that to the Department.

Peter Smith: On capital contributions, one of the implications of that is that we as an organisation cannot advise vulnerable households about what client contributions they may expect to make with regards to the scheme. That is a big barrier. If you cannot say to a householder, “For a boiler, we would expect you to have to put £250 in,” you cannot advise people about the suitability of that deal and give them assurance that it is not the contractor that is making an additional rent out of the thing; that is how much it costs and is a legitimate contribution. Hence the need for the scheme administrator to collect that information in the future and then look to limit capital contributions if they are extortionate.

Q26 Chair: What do you think Government’s strategy for domestic energy efficiency is? That was the one game in town when I started shadowing the Department six years ago, just before Caroline. What do you think the grand strategy is now?

Dr Jan Rosenow: That is a very good question and I do not have an exact answer, to be honest. I do not think the Government have that answer at this point in time either. The main challenge is how you deliver on the able-to-pay market, which currently has no scheme out there that provides any assistance at all. The Green Deal was supposed to deliver that; it did not. ECO will be entirely refocused on fuel poverty after 2018, so there is a big void that needs to be filled. The question is how we do that.

The only options that we know from international experience will work are to subsidise using taxpayers’ money, to put it on bills, or to regulate. Those three options are not particularly popular at the moment. It is difficult to see how we take this forward. It needs to be considered seriously and we need to make contributions from one of those three options, or ideally a mix, depending on which sector we are targeting and what is most appropriate. That is the dilemma that we have. There is no cost-free, regulation-free silver bullet that will solve all the issues. That was supposed to be the Green Deal but it did not work. There is a big void that needs to be filled, and I do not think there is a strategy yet. There will be one, as we heard last year, but I have not seen any concrete policies coming out.

Peter Smith: We have binding energy efficiency and fuel poverty targets that need to be met, with an interim target by 2020.

Q27 Chair: So what is the strategy?

Peter Smith: The strategy is to focus existing resource where it can be most effective and can help the people that need it the most, which is what we agree with. Sadly, we are seeing the overall level of resource is reducing, and it is clear that, as commentators such as the Climate Change

Committee have said, resources to meet the fuel poverty targets in England are about half what they need to be. When we move into 2017-18, the energy company obligation, which at the moment is the sole policy in town for fuel poverty, is going to be further reduced. It is a very challenging time for adequately resourcing an effective strategy.

Lawrence Slade: I tend to agree with the points made there. It is very useful that we have an interim scheme to take us through from the end of the current ECO to the next one. I generally support the idea of focusing the money available towards the fuel-poor; I think that is right and proper, as I have commented previously. I have strong concerns, though, about how we are going to handle the able-to-pay market and the complexity of measures that need to be delivered there, as Peter says, to meet our interim targets—but also, just read the CCC report as to the amount of work that needs to be done there. Overall, we have to look at how we are funding these measures as a whole and whether that is coming off the electricity bill. Bear in mind that it is very regressive and not right, I believe, that someone in fuel poverty is also paying for some of these schemes.

Q28 Deidre Brock: Mr Smith, you gave a couple of examples of good practice from Scotland. I just wondered whether you could outline what lessons from what is happening in Scotland you think could be taken and applied here?

Peter Smith: Absolutely. Before the comprehensive spending review we were advocating that the Government introduce a similar sort of mechanism to the one they have in Scotland through the area-based HEEPS programme, which works through local authorities. It provides every local authority in Scotland with a ring-fenced amount of public money, which is then able to be topped up by keener, more proactive local authorities or consortiums of local authorities. That then integrates in an efficient way with the supplier obligations that can also be accessed.

Sitting alongside that, you have adequate capital up-front support for renewable heat measures. You also have self-referral schemes, so if someone is sitting on the other side of the area-based energy efficiency scheme in Glasgow, for instance, they have still got the ability to say, “Actually, my boiler’s broken. I need a replacement. I can’t pay for it.” It is the mix of policies that they have got there which is so compelling.

I should say that Wales also has effective area-based schemes and self-referral schemes.

Q29 Deidre Brock: Do you think DECC is prepared to take some of those lessons on board?

Peter Smith: We produced a report at the beginning of this week called the “UK Fuel Poverty Monitor”, which showcases that good practice, and we have obviously disseminated those findings with officials. We hope that some of that will permeate into live policy making.

Q30 Chair: The final question before we move on to our next pane—we have the Department and others appearing next—is: what two or three things do you think they could do to make sure that we actually do meet our CO₂ emissions targets in relation to our domestic housing stock?

Dr Jan Rosenow: I would start by reviewing past successes and failures. We have done this in this session, to some extent, but actually total consumption has been reduced significantly as a

result of policy, so there are lots of good lessons that can be learned from past policy. I think the other step forward would be to look internationally, more broadly: what do other countries do? How do they pay for it? What is the leverage of these different instruments?

Q31 Chair: Can you point to a particularly good international example?

Dr Jan Rosenow: It depends on which instrument. For loan schemes you would point to KfW, which is mentioned again and again, but it is underpinned by a lot of public money. For obligation schemes you could look at the US, where there are about 25 obligation schemes operating, some of them very successfully delivering 3% of savings every year. For tax rebates you could look at France, for example. There are plenty of examples around the world that could be looked at.

Peter Smith: I have mentioned two specific mechanisms that we would like to see introduced, but in the immediate term we are urging the Government to review the private rented sector regulations, which are predicated on the Green Deal and therefore clearly need to be adjusted, given that it is no longer there. That is an urgent step that needs to be taken, to provide a clear steer to landlords about their responsibilities from 2018 onwards. We would also urge the Government to reduce or remove any ambiguity in the fuel poverty regulations, which currently exist as secondary legislation. We urge that they make them primary legislation and take out some unhelpful caveats.

The final thing is really to seize this opportunity around the National Infrastructure Commission. The Energy and Climate Change Committee has recently submitted a full report urging the Government to investigate the case for energy efficiency to be treated as an infrastructure priority, and we commend that approach. We think that through doing that, through that investigation, the benefits of energy efficiency would become clear, with necessary capital funding to follow.

Lawrence Slade: I support everything that has been said. In terms of how you can better target the fuel-poor—we have discussed issues around that in today's meeting—let's see if we can use data matching as much as possible, so we can identify qualifying households much faster and more effectively. It allows you to spend more money on insulation measures. We believe in the necessity of having a strong able-to-pay market, so let's look at what regulatory levers can be pulled there. Let's test and trial them and see what works, whether it is stamp duty or rate rebates and so on. Let's have a look at how those work.

What we have not mentioned today is the supply chain. Since the beginning of obligations, we have had stop-start breaks between each scheme. I think it is absolutely essential that you provide this market, as much as you do the generation market, with long-term certainty for the supply chain and for industry to invest in how they will solve some of these problems. Get innovation flowing and support it.

Q32 Caroline Flint: At the moment, the Department is devising a new scheme. Are you satisfied that you are being engaged with enough in the design and strategy for the future scheme?

Lawrence Slade: There is certainly a lot of engagement going on between industry and the Department, and I hope that will bear fruit.

Peter Smith: We feel that the need to resource the fuel poverty strategy adequately is not being taken account of. However, in the limitations that the Department of Energy and Climate Change are certainly working to, they are doing as much they can—

Q33 Chair: Are they talking to you?

Peter Smith: They are.

Q34 Chair: So, even if they're not choosing to do what you want, they are talking to you.

Peter Smith: They are talking to us.

Dr Jan Rosenow: I can support that. I think there is lots of good will. There are constraints—I outlined those before—and they are difficult, so I think there is no easy answer, but I think DECC are trying very hard to come up with something that will be successful.

Q35 Chair: I hope so, given the failures before and the warnings that were there about them.

Thank you all very much for coming along and giving us evidence this afternoon. Our transcript will be published in the next couple of days; uncorrected, straight to the website. We will get you a copy. And our Report—given that we have recesses, proroguing and stuff coming—may be out even as late as July, but we hope as soon as possible.

You are very welcome to stay for the next panel Thank you very much indeed.

Examination of Witnesses

Witnesses: **Jeremy Pocklington**, Acting Permanent Secretary, DECC, **Stephen Lovegrove**, former Permanent Secretary, DECC, **Clive Maxwell**, Director General, Consumers & Households Group, DECC, and **Mark Bayley CBE**, former Chief Executive, Green Deal Finance Company, gave evidence.

Chair: Welcome to our second panel today—our main panel. We welcome, from my left, Mark Bayley, the former chief executive of the Green Deal Finance Company, and Stephen Lovegrove, who is permanent secretary at the Ministry of Defence—rather confusingly—but of course he was until recently the permanent secretary at the Department for Energy and Climate Change. I hope you are enjoying Defence, Mr Lovegrove; we will see you with that hat on very soon, I think. We also have Jeremy Pocklington, here as the acting permanent secretary at DECC. Mr Pocklington, I believe your permanent successor has been appointed. Could you just tell us who that is and when they will start?

Jeremy Pocklington: That is right. The permanent secretary will be Alex Chisholm, who is currently chief executive of the Competition and Markets Authority. He will join the Department on

Monday 4 July, at which point I will return to being director general of markets and infrastructure group at DECC.

Chair: So, no gap—you're there for that time. Good.

Then we have Clive Maxwell, who is the Director General for Consumers and Households Group at DECC, so he is the director general particularly responsible for this area of policy.

You heard my comments at the beginning. You have the privilege, or perhaps I should say the opportunity, to explain yourselves to two former shadow Secretaries of State, who have followed this all the way through, as well as to the rest of the Committee. We hope for some honest answers about what went wrong and about what will happen in the future—perhaps you picked that up from our line of questioning, particularly our last question, to the previous panel. Although we are not a Committee that looks so much at policy, we want to know that lessons have been learned about the financial problems of this policy, so that consumers are not double-charged for the next policy and it doesn't work as well.

Q36 Caroline Flint: Good afternoon, everybody. Greg Barker said, "The Green Deal will be the biggest home improvement programme since the Second World War, shifting our outdated draughty homes from the past into the future, so it's vital people can trust it." I understand that the Government originally intended to reach 14 million homes by 2020 and 26 million homes by 2030, based on the Department's strategy, but only 14,000 households took out a loan. What was the purpose of the Green Deal and the ECO?

Stephen Lovegrove: Clearly the purpose of the Green Deal was to be an important part, but only a part, of a suite of policies designed to improve energy efficiency across what is a poor level of housing stock in the UK. It is important that we bear in mind two things that perhaps did not come out of the previous panel quite as strongly as I would have liked. One is that there is a suite of policies of which ECO was overwhelmingly the biggest—I will go into that in a second. Secondly, there were more objectives in mind for these various policies than merely addressing fuel poverty, or indeed saving consumers money. Important though those were—

Q37 Caroline Flint: Could you give us the headline priorities of the Green Deal and ECO so that we can better understand them?

Stephen Lovegrove: The headline priorities of the Green Deal and ECO were to save carbon so that we could be on track to hit our carbon reduction targets, and to be able to insulate more vulnerable homes so that consumers would be able to save money. Those were the main points at issue. The NAO has rightly looked at these various schemes as a package—they were a package. The bulk of them was ECO, with 95% of the money being spent on ECO and 95% of the benefits coming out of ECO.

ECO is a very well established type of policy, a supplier obligation. It did exactly what we expected it to do when we set it out in the impact assessment. ECO has been a success. We anticipated that it would save 25 megatonnes of carbon, which is how much carbon it saved. We brought that in at about 4% lower on the budget than we anticipated, and we also managed to get those carbon savings three months earlier than we anticipated. Under any circumstances, ECO was a success.

Q38 John Pugh: Isn't it slightly disingenuous to refer to them as a "suite of policies"? The impression I got from talking to Ministers at the time when I reported to them some problems with the ECO scheme was that the Green Deal was the coming thing that would override many of the deficiencies of other policies and, in many cases, replace them. You seem to be presenting a rather strange historical narrative whereby they were presented almost conjointly as alternative choices.

Stephen Lovegrove: I joined the Department in February 2013 and the schemes had been launched about a month and a half before that. Certainly the narrative that I inherited was that, importantly, these two schemes were going to be working together. The narrative was very much that ECO was going to be a reliable and predictable type of scheme. People have had these types of schemes many times before, so it was a known quantity and we knew roughly how it was likely to perform, notwithstanding that the supplier obligation had changed in some important respects.

What was not the case was that anybody really knew how the Green Deal was going to perform. This was a very innovative, ambitious and new type of policy. Nobody had tried anything like it before. There were certainly some ambitious targets, and I am looking forward to talking about some of the things that I think we did get wrong with regards to the Green Deal, but the two things were meant to go together. Certainly the bulk of the savings that we wanted to make, both in terms of pounds and in terms of carbon, were always going to be coming from ECO, which is 95% of the schemes both by value and by carbon savings.

Q39 Caroline Flint: I find that very interesting because I thought that one of the drivers for the new policy was to try to get more private investment into this market with a sort of pay-as-you-save scheme, which the Green Deal was meant to do. I don't think anybody disagrees that we needed to look at ways in which we could offer something for those in fuel poverty, which is a gap that previous schemes had sought to fill, but we needed something more for those who were able to pay in order to incentivise them to do so. So 1% of measures were funded through Green Deal loans—that is 14,000 households—and fundamentally it didn't work, did it?

Stephen Lovegrove: The Green Deal did not remotely work in the way that was hoped for. I am happy to talk about that, with great pleasure.

Q40 Caroline Flint: My original question was what was the purpose of the Green Deal and ECO? I thought you were going to say that it was to get more private investment into the harder-to-treat homes. I notice that in your answer you did not mention the harder-to-treat homes. All the other witnesses did, because they thought that was the driver for ECO.

Stephen Lovegrove: I am very happy to talk about the harder-to-treat homes and the nature of how difficult or otherwise it was to mobilise private investment. At a very high level, these schemes have always been about reducing customers' bills and saving carbon. There are three key elements of ECO; two of them—the principal success criteria—are about carbon, and one of them, Affordable Warmth, is about money being saved. The Green Deal was clearly less successful—

Q41 Caroline Flint: Can I just come back to ECO before we go on to the Green Deal? In terms of CO₂ savings, covered in figure 9 on page 25 of the Report the installed measures up to 2015 will

save 24 to 25 megatonnes of CO₂—that is 29% of what previous schemes under CERT and CESP achieved over similar periods.

Stephen Lovegrove: Yes, that's right.

Q42 Caroline Flint: So you weren't actually making as many CO₂ savings as previous schemes.

Stephen Lovegrove: That was by design. It was a very clear policy decision, supported by evidence that much of the cheap and very effective insulation measures—the low-hanging fruit, as it were—had been taken. The decision was therefore taken to design the new ECO, which was to replace CERT and CESP, with something that was going to have a bigger focus on harder-to-treat houses.

Q43 Caroline Flint: Okay. We have established that. I understand that solid wall insulations cost more than loft and cavity wall insulations, but under ECO the average on solid wall properties was 23,500 insulations per year, compared with 83,000 under CERT and CESP at their peak.

Stephen Lovegrove: That is not quite the way I would present those figures.

Q44 Caroline Flint: Really? Okay. Well, you tell us how you would do it.

Stephen Lovegrove: That latter figure is absolutely an annual high point under CERT and CESP, and the former one is an average. If you were to take an average against an average, they are very similar. That high number underneath CERT and CESP was right at the end of the period, when the energy companies were rushing to meet their obligations.

Clive Maxwell: It is also worth noting that when you average the number of solid wall installations actually done under the new ECO, it is averaged at something like 35,000 over the period in question, because more have been done than was expected. Firms have been doing slightly smaller houses, so there have been more installations going on. If you track backwards through the previous schemes, the average is about 28,000 or 29,000 a year. As Stephen says, that 83,000 was a peak point at a particular point in the process.

Q45 Chair: Can I ask the NAO to clarify the figures so we can be clear what we are talking about?

Michael Kell: Our understanding is that the average under CERT and CESP—the predecessor supplier obligations—was about 36,000 a year, as opposed to an average of 23,000 under ECO.

Clive Maxwell: Okay.

Stephen Lovegrove: The key point is that the 83,000 is not an average. The number that you are quoting—23,000—is the number up to the end of—

Caroline Flint: I did say “at its peak”.

Stephen Lovegrove: As I say, when the schemes were coming to an end, the suppliers had not managed to meet their obligations for harder-to-treat properties and they were rushing to do as much of it as they could.

Q46 Caroline Flint: Is it not also the case, Mr Lovegrove, that the Department discovered later that there were more low-hanging fruit than they thought when they were devising the scheme? In figure 1 on page 14 of the NAO Report “Green Deal and Energy Company Obligation”, there is a really helpful outline looking at a typical semi-detached house. We have figures here on what still is to be achieved across the market using different energy efficiency measures, including 7 million homes potentially improved through loft insulation, 4.4 million homes potentially improved through double glazing, and another 1.3 million are easy to treat. Was that not part of the finding that led you to change the terms of ECO so that the suppliers could move to provide cheaper home energy efficiency measures, which led to a reduction in solid walled homes being done, which then affected your overall target?

Stephen Lovegrove: The changes that were made at the end of 2013 and came into effect in 2014 were absolutely about the expense of the measures that we were mandating. You have already touched on the political debate going on at the time about the high cost of energy bills. I do not need to labour the point, particularly in this Committee, that there is always, or very often, a trade-off between value for money and affordability.

The approach taken in the original design of ECO was that the long-term, harder-to-treat measures such as solid wall insulation, which would give you much greater carbon savings in due course and, over a much longer period, big savings for the household, were under pressure from a much more keen focus on affordability. It was a policy choice made by Ministers to readjust the scheme so that it would become cheaper for consumers. You will all remember that £50 off was the headline number to be delivered to people through their energy bills. That was done consciously, at the expense of focusing on some of those longer term, more difficult, harder-to-treat measures. That was a policy choice.

Q47 Chair: Can I chip in? Paragraph 12 of the summary on page 7 of the NAO Report talks about the lack of clear success criteria. Mr Lovegrove, you have just outlined what you saw when you came to the scheme nearly cooked and ready to deliver. You talk as though there were quite clear success criteria, but that is not the impression we got sitting on the other side at the time. It was very vague. You say it was a success—

Stephen Lovegrove: No, ECO was a success. Green Deal was not a success. I want to be very clear about that. There is no doubt in my mind that there were a number of things we should have done that we did not do on Green Deal at its inception.

Q48 Caroline Flint: What sort of things should they have done at its inception?

Stephen Lovegrove: Looking back, the Green Deal was innovative. It had not been done before. If I had to identify two things that we got wrong, they would be as follows. One was that in the market testing that we did—and we did do market testing; the policy had been in gestation for some time—we identified that the absolutely key driver for people paying for these kinds of

measures was availability of finance. Actually, although that was an important measure, it was not the key measure. That insight, which I think is a partial insight, drove the design in a probably unhelpful way.

The second thing was less about—

Q49 Stephen Phillips: Mr Lovegrove, pause there. The finance was always available; it just wasn't taken up. What were the things that should have been in there? What was the missing bit in the policy as implemented, which was missing because of the focus on finance rather than on something else?

Stephen Lovegrove: For some of the households that we were targeting, and Mr Bayley will talk about this, the finance actually wasn't there. That was one of the reasons why what seemed like quite a high headline interest figure for those households wasn't particularly—they wouldn't have been able to get that finance from any other form. Perhaps Mr Bayley will talk about that later.

The other things that we needed to work much better on have actually been touched on by your previous panel—I thought some of the comments were very insightful. We needed to talk about how the house would be more comfortable, rather than merely just thinking about finance, and how the value of the house would go up. We certainly needed to make the consumer—

Q50 Chair: You say that about the value of the house going up, and there was some discussion about this. The British property market is a funny thing, but are people really paying more for a home that is a little bit warmer than it might otherwise be? Very, very cold, very draughty and derelict may be one thing, but did you really do an analysis?

Stephen Lovegrove: Probably the answer is that there is a whole bunch of different things that we needed to be talking about at any given moment to try and make the policy and the instrument have much more broad salience to different types of consumers.

Chair: A bit more consumer focus, perhaps.

Stephen Lovegrove: We needed to spend more time on consumer focus. There is no question but that we absolutely understand and accept we did not do as much on that as we should have done. We made some changes to future policies, which colleagues can talk about.

Q51 Caroline Flint: I find it interesting because around 97% of all the measures that were installed through these two schemes were delivered under the ECO and they were either free or very subsidised. I thought the Green Deal was meant to be to for those who could afford to pay, to try and incentivise that market to be part of it. Clive Maxwell, were you there at the start of the scheme?

Clive Maxwell: No, I joined the Department in early 2014.

Caroline Flint: Who was there at the start?

Stephen Lovegrove: I am the oldest hand here.

Q52 Caroline Flint: Let's stick with the finance, because you said it was too finance-driven—

Stephen Lovegrove: As a consumer offer.

Caroline Flint: Okay, as a consumer offer, but even the finance offer was complicated and not very attractive to the consumer. So 7.5% interest on these loans, but a lot of people, including me, my hon. Friend and many others were saying that you could go out on the high street for that. I seem to recall that one of the banks at the time was offering 6%—

Stephen Lovegrove: You could get that.

Caroline Flint: Hang on. The other parts of this were that it was tied into the property, there were heavy penalties if people wanted to pay the loan up sooner and it was all, people were saying, not helpful to incentivising people to take up these loans. So even the finance model wasn't attractive—and don't tell me it was, because only 14,000 people took it up.

Mark Bayley: Which particular point would you like me to address first?

In terms of repayment, we had no charges for early repayment—I should make that clear. On the second point, about the competitiveness of our finance, it is true that there were headline offers for consumer finance that were way cheaper than the average rate we were offering, but advertising rules say that those only need to be available to 51% of successful applicants for the finance and that the rest can be charged really anything. So it is misleading to take the headline and to use that as an assertion about our finance being uncompetitive.

We did a lot of research, Frontier Economics did some research and we worked with our credit reference agency, and if you take the average cost of five-year money in personal finance, it ranged between 9% and 10%. Very few of our loans were for over 9%, and most averaged 8%. Credit card debt was twice as much, and people were paying 17%, 18% or 19% for boilers, whereas they could take our finance at half that rate.

Q53 Caroline Flint: So why did they not take it up?

Mark Bayley: There was a number of reasons. I agree that the marketing and promotion missed a lot of tricks. Another very important factor was the channels of distribution. This product was only sold in the home by Green Deal providers. One of the things that we wanted to promote was the liberalisation of the framework, so that people could take out Green Deal finance in the ways that many people buy financial products—online or over the telephone, but not through in-the-home selling, which only appeals to a small, niche part of the market. So the channels of distribution need to be regulated, the marketing and promotion as well.

Q54 Chair: May I just check on the marketing? The Cabinet Office cut down on advertising and marketing in the first year or so of the last Parliament. Did that have an impact? Or did you do your own marketing as well—DECC or the Green Deal Finance Company?

Mark Bayley: We were not resourced to market and promote the Green Deal; that was the role of the Green Deal providers. What we did was to support the providers in how to market the finance.

Q55 Caroline Flint: But as a strategy, before you get to the point of delivery, anybody setting up a business might think, “I’ve got a product to sell. How am I going to go about that? Who is my market? What are the things that are going to be plus points or negative points in terms of what I’m trying to do here?” Who is responsible for that side of it? Is it the Department that should have done more work on the design side and understanding consumer behaviour?

Stephen Lovegrove: That was the Department. I think it is an absolutely legitimate criticism made of us in the Report that we did not do enough consumer work beforehand to work out fundamentally the attraction of the offer, and secondly how that offer could be most effectively made through marketing—various channels and so on—and indeed the ways in which we made the consumer journey rather complicated. We did not do enough work to be able to optimise that.

Q56 Stephen Phillips: That was known at the time, Mr Lovegrove. In the 211-page June 2012 impact assessment, in more than one place, the Department wrote: “the ability of the models used in this assessment to project with certainty the likely uptake of measures is limited.”

Stephen Lovegrove: Yes, that is correct. That is at the heart of why the NAO says that the Government did not have success criteria for the Green Deal. This was a very new, very novel, very innovative product. There were some putative sales targets but there wasn’t anything like the same degree of certainty that we had with ECO, which was a very established type of mechanism—

Q57 Stephen Phillips: Yet the impact assessment went on: “There are reasons to suggest that...take-up estimates...could be cautious.” They have turned out to be catastrophically wrong.

Stephen Lovegrove: They did turn out to be wrong. I am not denying that at all. We made some in-flight adjustments to this, but did they bring it up to where everybody wanted to be? Absolutely not, although I would say that this is a suite of policies, and overwhelmingly the most important policy in it, which delivered absolutely ahead of time and fully in terms of its carbon and the cost—

Stephen Phillips: You are going to say ECO.

Stephen Lovegrove: —is ECO. ECO was a great success.

Q58 David Mowat: This is remarkable. Mr Bayley said that it was a marketing failure and a distribution channel failure—

Mark Bayley: I didn’t say that.

David Mowat: But in my constituency, just to take an example, there were 1,100 assessments, with four finance plans coming out of that. That is not a marketing failure. That implies a structural issue with the product.

Mark Bayley: If I may come in on that, the assessments were also for the majority of the ECO schemes and were a precursor to ECO installs as well as Green Deal finance.

Q59 David Mowat: Okay. The fact remains, though, that there were four in a town of 86,000 people. The awareness was there. I suppose what we are left with is that it went on for a long time. When did you realise it was a disaster?

Mark Bayley: I would say that what we have created is a book of £50 million of Green Deal finance plans, which is funding the pay-as-you-save mechanism for many years to come. So although the scheme did not meet the original forecast, we have created something of lasting value that can be used to provide finance on a very widespread basis for the able to pay. I think that is a very important benefit.

Q60 David Mowat: That answer implies that you didn't realise it was a disaster, because it wasn't.

Mark Bayley: I just believe that there is a positive aspect to what we have created. Yes, the forecasts were not met. It is not the first time forecasts have not been met, but nevertheless we have—

Q61 David Mowat: It is not just that they were not met, is it? We were way off. We weren't close to them, were we? It is not just that they were not met; "not met" implies 10% short of a target, or something.

Mark Bayley: Two things. One is that we have created something of lasting value for the future, which is to develop and implement a pay-as-you-save—

Q62 Caroline Flint: What have you created?

Mark Bayley: A pay-as-you-save mechanism that is working, that is fully funded for many years to come and that is attracting private sector interest.

Q63 David Mowat: Is it Mr Lovegrove's view that you have created something of lasting value for the future here as well?

Stephen Lovegrove: Yes, it is.

David Mowat: Right. So when you said at the start that the ECO bit was pretty good and the Green Deal wasn't, you meant that the Green Deal wasn't except for this bit of lasting value that has been created.

Stephen Lovegrove: The Green Deal, as a whole, cannot be said to have been a success. Ministers took the decision to shut down the Green Deal in July 2015 and there were very good

reasons for that. However, from what was not a success there are a couple of lasting elements that we do not want to lose sight of. There is the working mechanism for a pay-as-you-save scheme, and that is really, in some senses, why we kept the whole scheme going until new Ministers could take a view. The Treasury backed us up on this, and it is in the Report. At that point, all the three then main UK parties—the Labour party, the Conservative party and the Liberal Democrats—wanted to make sure there was a pay-as-you-save mechanism that could be used.

Q64 Chair: Could you be clear? You say it is a useful mechanism. How do you see yourselves applying it to anything in the future? I am puzzled.

Mark Bayley: The infrastructure is fully funded for many years, so it is there for any private sector participant to use. The value of that infrastructure is that it can access a much wider demographic and a much wider proportion of the population to finance household energy efficiency than any other type of consumer credit.

Q65 Chair: Do you have any interest? Is there anyone coming to you?

Mark Bayley: Yes, indeed. In the written evidence I disclosed that we are running a sale process and we are in negotiations.

Chair: We will come back to that.

Q66 Caroline Flint: How did the Department get it so wrong? At 31 December 2014 the Green Deal Finance Company had loans issued worth £17 million. That is less than 3% of the £695 million that the Department forecast in its central scenario of 2012 in its impact assessment. How are you so off track in your projections? Is it not the case that those forecasts set the premise for the business case, which then led to the Green Deal Finance Company determining how it would operate and deliver? It was all based on completely wild forecasts of what would be possible.

Stephen Lovegrove: I am not going to deny or dispute that those forecasts proved to be very, very, very much over the top.

Q67 Chair: Isn't the truth that it was another policy set by Ministers that the civil service had to backfill, with great difficulty?

Stephen Lovegrove: I am not in a position to answer that. The scheme had been launched when I arrived and we knew that it was new. We knew that it had a great deal of coalition Government support. We all felt that generating a pay-as-you-save model was something all parties wanted to see happen. We recognised that there were going to have to be in-flight adjustments, and we did make some; there is no question but that we took some measures that made the scheme easier. But did it live up to anything like the expectations put on it in the first place? Of course it did not.

Q68 Stephen Phillips: I quoted this to you earlier, Mr Lovegrove: “the ability of the models used in this assessment to project with certainty the likely uptake of measures is limited.” That is civil service speak for, “The evidence does not actually back up the policy,” isn’t it?

Stephen Lovegrove: I think it is a recognition of the fact that there was very little—in fact, no—historical precedent for this type of mechanism or scheme.

Q69 Stephen Phillips: In other words, it was a punt, and the impact assessment was essentially a guess, wasn’t it?

Stephen Lovegrove: I think the impact assessment makes the point pretty clearly—

Stephen Phillips: Again and again.

Stephen Lovegrove: —that the ability to rely on those targets was limited. That, as an assessment, has proved to be the case.

Q70 Stephen Phillips: I know you were not the permanent secretary when the impact assessment was written in June 2012 and laid before Parliament, but are you ashamed of that document?

Stephen Lovegrove: No, I am not ashamed of that document. There will always be a degree of risk in new and innovative products, and this was fundamentally a finance product. There are plenty of examples in the private sector and the public sector where people with the best intentions and the right strategic intent attempt to do things that do not work. I think the Green Deal falls into that category.

Q71 Stephen Phillips: I will just pick up one point on the impact assessment. Parliamentarians look at these things when we are deciding what we are going to do. It says: “It is estimated that the cumulative volume of Green Deal finance would be between £1.1 billion and £1.3 billion by 2015 and between £3.2 billion and £4.1 billion by 2022.” If we then look at table 5 on page 22 of the Report on the Green Deal and elsewhere, we see £2 million in 2013, £17 million in 2014 and £50 million in 2015. It is so catastrophically out of kilter with what was laid before Parliament that I cannot help but feel that you must be ashamed of the impact assessment.

Mark Bayley: May I—

Stephen Phillips: Let me hear from Mr Lovegrove first and then I will let you in, Mr Bayley.

Stephen Lovegrove: I have not disputed that those forecasts—they did clearly come with a very big caveat—were very much out of line with what happened.

Q72 John Pugh: Isn’t there a fundamental flaw here, though, in terms of your Department being able to anticipate or even have a sensible reading of consumer expectation? I am reminded of the instance of the solar panel fiasco, when in a sense you underestimated massively how consumers might react. In this case you have overestimated massively.

Stephen Lovegrove: That is a very interesting question. The overwhelming effect of these schemes was always meant to be delivered by ECO, and it was—and it was very accurately. That is a scheme that is fundamentally different from ECO, and indeed from the solar panel schemes, in that it is effectively an obligation; it is a form of regulation and you can predict it. We did predict it, and we predicted it pretty well. Demand-led schemes, where you are putting out a product—whether it be finance for solar panels or a new consumer finance product such as Green Deal finance—are much, much more difficult to get right. As I have said before, I am not disputing in this case that we got that wrong.

Q73 Caroline Flint: Time and again in this Committee we hear from senior officials in Government Departments saying, “We didn’t get it right. We overestimated the cost. We are learning from this,” but at the time you based your business case for the size of the stakeholder loan on the forecast that the Finance Company would need £450 million to £500 million of Green Deal loans to cover its operating costs. This is on page 17 of “Investigation into the Department of Energy & Climate Change’s loans to the Green Deal Finance Company”, at paragraph 2.6. What did you base your predictions of uptake on?

Clive Maxwell: The only thing that I can add to that is that the Department was involved in supporting the Green Deal Finance Company through its stakeholder loan, and so were a lot of private sector investors. Many of them had extensive experience of the way in which this market operated. They put their money into this scheme as well. They were looking at this, in many cases bringing experience as energy suppliers of seeing how this market operated at the coalface, on the ground.

Q74 Chair: Can you give us an idea of the range of sizes? Some of those were quite big private investors. I gather there were some smaller ones. What risk were they taking?

Clive Maxwell: Mark will probably remember the list better than me, but it ranges from some of the big energy suppliers all the way through to—

Mark Bayley: One or two small SMEs that—

Q75 Chair: Could you tell the Committee how small those SMEs were? What was the risk to them as small companies? For the big companies one can argue it is not such a big risk.

Mark Bayley: I see what you mean. On the smaller end of the investment, the outcome is painful—yes, indeed. They will not recover all their investment, and that is indeed painful.

Q76 Chair: It means they might go bust, or—

Mark Bayley: No, not the investors in the company. Some of the Green Deal providers have gone into liquidation since we stopped quoting for the plans, but the investment was not of such a size that it was sort of betting the farm on the company, no.

Chair: That is what I was driving at.

Q77 Deidre Brock: Is there any estimate of how many jobs might have been lost as a result of this?

Chair: Yes, there is somewhere in the Report. Can anyone answer that quickly?

Mark Bayley: May I return to a point we made earlier? In establishing this pay-as-you-save mechanism, fully financed for many years, we have a form of consumer finance for household energy efficiency that is very efficient; it accesses over 80% of the population in principle, with a very low default rate. That is the holy grail for consumer finance. The more efficient a financing mechanism you can provide for the able-to-pay market, the less subsidy you need to inject to get people to take up measures, and that is why what has been created is of lasting benefit for bill payers and taxpayers, even if the investors in the company will not see much recovery.

Q78 Caroline Flint: But for every Green Deal loan that has gone out it has cost taxpayers £17,000. For 14,000 Green Deal loans it has cost taxpayers £17,000 per deal. How is that good value for money?

Mark Bayley: If we could dwell on that, in my written evidence I set out that I have very significant reservations about that figure because it includes things that were not conditional on Green Deal finance. It includes investment that was made to set up a whole range of things that were not essential for finance, and as a result the figure is, in my view, very unfair and misleading.

Q79 Caroline Flint: Perhaps the NAO want to come in on that, since you disagree with their Report.

Michael Kell: The reason we used that figure was, first, because we thought it was important to come up with some simple measure of the cost-effectiveness of the schemes. For ECO, we were essentially able to work out how much it cost for each tonne of carbon that was saved. We were planning to do the same for the Green Deal but, essentially because the Department agreed with us that the Green Deal didn't save any additional carbon, we couldn't come up with a cost-effectiveness measure based on the carbon saved—that just doesn't make sense. So we were looking for another, simple-to-understand, albeit possibly slightly crude, measure of cost-effectiveness. The one that seemed most obvious to us was the total cost of the Green Deal for the total number of plans delivered.

Mark Bayley: But the total cost invested in the Green Deal was not all about Green Deal finance; it was primarily about the implementation of measures. For example, it is like attributing all the costs of the meat counter for the running costs of a supermarket, and then on top of that adding all the costs of building the supermarket. In essence, that is the calculation that has been done. A fair apportionment of the £240 million would result in a much lower cost per plan. The important thing to take away from this is that any new finance using the pay-as-you-save mechanism we have established, financed by the private sector, reduces the levels of subsidy that either bill payers or taxpayers would need to contribute.

Q80 Caroline Flint: Even if it was a third of £17,000, it is roughly £5,500, but wasn't it the case that as you were failing to incentivise people to take up these loans, you were not able to offset the fees and other things you would get from the loans to offset your operating costs, so the Department ended up bailing you out for your operating costs as well?

Mark Bayley: The Department did not bail us out for the operating costs. That is not correct and not borne out by the evidence in the Report.

Q81 Caroline Flint: Well, you couldn't get the loan from the Green Investment Bank.

Mark Bayley: That is a separate issue.

Q82 Caroline Flint: How much was the Green Investment Bank loan?

Mark Bayley: What I wanted to come back to—

Caroline Flint: Because they were not prepared to loan when you were not making the moneys on the deals and they were not prepared to pay a loan that was going to go on your operating costs. Isn't that the case?

Mark Bayley: The loan from the Green Investment Bank and the loans from DECC were never going to our operating costs. If the NAO has given that impression, it is wrong. It was certainly challenged in the correspondence with the NAO.

Q83 Caroline Flint: Who was paying for your salary then?

Mark Bayley: My salary has been paid for—I'm no longer working for the company—out of the initial investment made by the investors. The important point is that now the book is in run-off, the book of plans is funding the costs of administering and collecting the debt, but the whole system is fully funded for many years. If we are successful in attracting private sector interest into the company, which is what we are trying to do, any new finance plans that the company funds are at no or minimal cost to the taxpayer, reducing the levels of subsidy that would otherwise need to be contributed to get householders to implement the measures. That is why what's been created is of lasting value.

Q84 Chair: I am going to bring in Clive Maxwell, and then I am going to ask the NAO to clarify this.

Clive Maxwell: I am not going to get into whether or not it is a fair number to use, but I would like to add that if you are going to use the £240 million figure, it is also worth looking at some of the other things that have been achieved with that spending. There have been many other thousands of homes benefiting through some of the support schemes and others—

Caroline Flint: I will come back to the home improvement fund, which was a giveaway to those first in the queue, in a minute.

Q85 Chair: Could the NAO clarify the figures? Michael, have you found it yet, or do you need a minute?

Mark Bayley: My I add a clarification to what I said? There were two loans from DECC: the £25 million investment in the company and the loan I was talking about that was being provided by the Green Investment Bank and is now being provided by DECC—the £34 million. None of that was applied, is applied or would be applied to the operating costs of the company.

Q86 Chair: Right. Michael, are you able to explain?

Michael Kell: Our understanding is that the operating costs were paid for by around half of the £25 million stakeholder loan.

Mark Bayley: In the discussion, the issue was the loan coming from the Green Investment Bank not being made available, provided by DECC. That loan was not a bail-out; it did not fund the operating costs of the company. That is the point I wanted to make.

Q87 Caroline Flint: You do understand that the figures in the Report have been agreed and signed off by the Department.

Stephen Lovegrove: We are not disputing any of the figures. The point that I think Mr Maxwell was just about to make was that within some of those numbers—that £240 million from which the £17,000 is derived—there are lots of other things going on as well. So I think we would accept the NAO's characterisation of that as a shorthand, which there are other things to unpack out of. Clive, do you want to talk about some of the other things?

Clive Maxwell: As I said, there are a number of other schemes, and roughly half of that £240 million was spent on other types of subsidy schemes and support schemes.

Q88 Caroline Flint: Such as?

Clive Maxwell: Such as the Green Deal Communities scheme, for example, Pioneer Places, Core Cities and cashback schemes. So there was a series of things that were intended in part to do some of the things that Mr Lovegrove mentioned earlier about providing, if you like, an extra nudge or support or encouragement for people to think about improving their homes, but also actually achieving things on the ground in thousands of homes across the country and making them better. So there are concrete, real-world benefits from those schemes that I think need to be seen in addition to the number of plans. I am not disputing the figures.

Q89 Caroline Flint: Okay, but on the Green Deal Communities scheme you mentioned, I understand that was to pay local authorities and others to help promote and market the schemes. Is that correct?

Clive Maxwell: The purpose of that scheme was to encourage them to help market, but also to achieve things on the ground. You asked some of the earlier witnesses about the benefits of area-based schemes in operation across the country. In many respects the projects across England carried out under Green Deal Communities are exactly what you were asking for. There were 20 or so local authorities making real improvements in people's homes. I think it is fair to say that the marketing of the Green Deal finance offer through those was less successful, but the actual carrying out of activity on the ground and improving people's homes is going on at the moment. It is a scheme that is lasting 2.5 years and not all of the results have been seen yet.

Q90 Caroline Flint: I don't disagree with bottom-up rather than top-down schemes. I think it would have been far better if the whole system had been led from communities in the first place, but there were an awful lot of add-ons during the period of the Green Deal and ECO to compensate for failure. To go to your other point, you said the other activity, the home improvement grants—

Clive Maxwell: That is not included in the £240 million; that is an additional scheme.

Q91 Caroline Flint: What was the scheme where people could apply for cash for improvements?

Clive Maxwell: That was the Green Deal home improvement fund.

Q92 Caroline Flint: Okay. When money was being handed out for that—that is not a loan but a direct grant to people—in what way did that scheme monitor whether people could afford to pay in another way and whether it was adding to CO₂ reductions, for example?

Clive Maxwell: The scheme was not focused on particular parts of the population.

Q93 Caroline Flint: Is it fair to say the way that the scheme was promoted was basically that if you were ready to make some energy efficiency improvements in your home and you got in the queue, it was first come, first served, so you were going to get a lump of taxpayers' money free?

Clive Maxwell: This was a scheme which was intended to encourage people to make some difficult to achieve—

Q94 Caroline Flint: So I could be a millionaire and apply for that and get some money.

Clive Maxwell: Yes. To run a scheme that would have meant looking at people's income and to assess all those sorts of things would have been a very different sort of scheme. You asked earlier about the impact of the changes in ECO on the solid wall industry and on the numbers of solid wall installations. In fact, one of the biggest uses of those Green Deal home improvement funds has been to fund solid wall insulation, as was the case with Green Deal Communities. Those two schemes have been responsible for significant numbers of solid wall insulations going on across the UK.

Q95 Caroline Flint: Isn't it the case with some of these cashback schemes and grants that the Department was in turmoil because the Green Deal was not working? Greg Barker was going around saying, "I'll have sleepless nights if I don't see millions of these Green Deal schemes taken up. It's going to be the greatest thing since world war two," so the Department was desperately trying to find ways to get cash out there to get more homes to do energy efficiency improvements.

Clive Maxwell: The funding for the Green Deal home improvement fund came about at the point when the Government decided to put some more taxpayer funding into these schemes, at the same time that the ECO obligation was amended. There was then an interest in putting that scheme together and the Government had to decide on what to focus it on, what to target it at and what sorts of measures. Solid wall insulation was an area the Government were keen to maintain activity around, because of the benefits and the need to get the supply chain going.

We also heard from some of our earlier speakers about the importance of working with the supply chain on some of these very difficult practical construction activities. Solid wall insulation is not a straightforward activity; it is not like easy-to-treat cavity walls. You need to build up skills and a pipeline. What the Department managed to do—building on the experience of its previous scheme, Cashback, which had been equally generous at some points, or nearly as generous, but had not failed to engage the supply chain—around the Green Deal home improvement fund was to work very closely with the supply chain to get suppliers interested and to market it. That is in the same way that we have identified the need for the Department to have looked at marketing things around the Green Deal finance proposition.

Q96 Caroline Flint: Why did you not trial the Green Deal finance design with consumers before you rolled it out?

Clive Maxwell: Going back to the design stage of Green Deal finance, I understand that there were about five different trials of pay-as-you-save arrangements that were looked at in the UK. They involved two or three local authorities, some housing associations and a big energy supplier. However, those schemes only covered about 300 or 400 customers and households, so they were very small scale—

Q97 Chair: I am sorry, but they were also very different. Doing it through a housing association, which has a captive audience of tenants who it has a landlord relationship with, is very different from someone buying it because you offer money.

Clive Maxwell: Quite possibly, and as Mr Lovegrove said, those trials may have been useful, but they were far from sufficient, and that is certainly something that we, as a Department, are doing better.

Q98 Stephen Phillips: But again, those trials were relied upon in supporting the estimates made in the impact assessment. In box 1 on page 40, the impact assessment states, "The results of the model have...been compared against evidence from the evaluation of existing pilots and trials. These show...demand estimates are broadly consistent with what has been observed in practice." I come back to the point, Mr Maxwell, that the impact assessment is disastrous. It produces estimates, which are taken against these trials and are said to be relatively robust—with the caveat

that I have already mentioned. That is laid before Parliament and those of us who are sceptical about the Green Deal look at the impact assessment and say, “All right, we will give it a go, because they can’t be that far out.” I come back to the fact that here we have a policy that has gone through Parliament on the back of an impact assessment—a very long one at 211 pages—prepared by the civil service that has actually led Parliament to the wrong decision.

Clive Maxwell: I can only repeat what my colleague said. When I look back at those impact assessments that were done, clearly they have been proved very wrong. I am also, coming back to my colleague’s importance of ECO—

Q99 Caroline Flint: Who is accountable for that?

Chair: Where does the buck stop? Who should we have in front of us, if not you?

Stephen Phillips: I want to know who is responsible for this disastrous impact assessment, which led, in part, to Parliament approving the legislation that effected this policy.

Chair: Mr Maxwell, who is responsible? Then I shall bring in Sir Amyas Morse.

Stephen Lovegrove: The accounting officer is responsible for that and I, as the accounting officer for the vast bulk of the time that the Green Deal was operative—

Chair: You were not the accounting officer when this—

Stephen Lovegrove: I was not the accounting officer when the impact assessment—

Chair: Not at that time. I appreciate you stepping forward.

Q100 Stephen Phillips: Who was the accounting officer when the impact assessment was published in June 2012?

Stephen Lovegrove: My predecessor was Moira Wallace. I am sure she was the accounting officer at that time.

Chair: Yes, I am sure she was.

Sir Amyas Morse: A couple of points. First, there is nothing wrong with trying new things; it is quite valuable for me to say that, I suppose. However, it is reasonable to expect that reasonable efforts have been made to preserve value while trying new things, as you would expect, and that there is a reasonable assessment of risk in trying new things. The bit that I find mysterious, if I may be honest, as I listen to all the excellent things that have been achieved—the energetic marketing—is that when you found that this wasn’t working, we went along for a bit, but clearly the numbers must have looked pretty sick, compared with what you were expecting, very early on. You are clearly experienced, Mr Bayley, and so is the Department, so when you realised that it was not being marketed right, I am sure you told them that jolly quickly—I bet you did. What I don’t understand is just what went through your mind, permanent secretary, when you decided, “We can’t fix this; we’ll shut it off.” I am interested in that because at the same time we are hearing that something was generated that was no doubt of great value, and I take it still remains a valuable system

development primarily, and that somehow someone will call forth the value from it in future. Without sounding excessively sceptical about it, I want to understand, juxtaposing those two, why you decided not to try and revive this, but to stop it. As far as I hear, the Department is not planning on re-igniting it, but it is a great opportunity for someone in the private sector to try to re-ignite it, but you decided to stop it. I am just trying to understand how all that slightly awkward narrative can be reconciled, if you pardon me.

Stephen Lovegrove: I will answer a couple of those questions and I am sure Mr Bayley will have a couple of observations.

Clearly, fairly early on—you are absolutely right—the scheme looked like it was not hitting the targets that had been anticipated. The Report is reasonably complimentary about our tracking measures and the information we had. We did know what was going on. We made some changes to see whether that would improve radically the success of the sale of Green Deal finance plans. We made the IT simpler, we made the description of what was going on simpler, we made the consumer journey simpler and we introduced cashback in Green Deal communities to slightly prime the pump, as I think you mention in the Report. These were obviously of limited success because we would not have ended up where we did if they had been capable of shooting out the lights.

The decision then had to be taken on whether to maintain as a sort of option value—I will pass over to Mr Bayley on that—the mechanism for a future Government, because we were running up to the election, to take a view on whether they would want to use this mechanism that had been built. Clearly, if we had shut off the financing at that point, it would all have collapsed and that option wouldn't have been there.

We had long discussions with colleagues in the Department and obviously with Mr Bayley and his board. As the Report says, the Treasury agreed with us that the strategic value of the pay-as-you-save model, although it was disappointing that we found ourselves in this position, was worth keeping alive until new Ministers could come in and take a view. That is what we did. We made available, theoretically, £34 million of loan and I think £23.5 million has been drawn down. As Mr Bayley said, this was not for operational costs; it was to finance plans. We also made it a condition of making the finance available that certain other things happened on operating costs.

When new Ministers came in, they took a look at what was there and decided that they didn't want the Government per se to be using this mechanism and decided to shut down the Green Deal and to sell the mechanism. That was basically the narrative.

Sir Amyas Morse: And you were crucially involved in advising those new Ministers at that point. That was on your watch, wasn't it?

Stephen Lovegrove: I was involved, obviously, in the advice that was going to Ministers, but ultimately this is a judgment that Ministers have to make. Clearly, Ministers in the coalition Government wanted to preserve the mechanism for Government use. The new Government decided that was not what they wanted to do.

Q101 Chair: Mr Bayley.

Mark Bayley: After the decision was made, we had 14 expressions of interest in the company from the private sector and we made available all the information they wanted. We had

about half a dozen informal expressions of interest and we had three indicative offers. We then went into a formal process of due diligence resulting in the current situation of negotiation with a particular preferred bidder.

We had thought that we would need about two to three years of track record on default to elapse before the private sector could get really interested in this consumer finance, because it accesses a very wide demographic; and if with that financial inclusion it could still get a very low default rate you have something of huge interest; but we thought it would take two to three years before that private sector interest materialised. However, it appears to be more aggressive than that, and may well result in a transaction in the coming month. We will see.

If it doesn't result in a transaction, nevertheless the system is sitting there, fully funded, developing a record on repayment. If that—as in the emerging evidence which I presented in the written evidence—is the case, we have something, as I have said perhaps too often, of real intrinsic value for the taxpayer, created out of the investment being made.

Sir Amyas Morse: Very briefly, just to finish that off, in that marketing there are two elements of potential value—at least two. We are familiar with the fact that the run-off book itself has an intrinsic value—doesn't it?

Mark Bayley: Yes.

Sir Amyas Morse: Exactly; and then there is the value of the technology that you have developed. Is it your testimony that the range of values under discussion reflects some significant value close to the cost of developing the technology in addition to the value of the run-off book, if you follow me? In other words, the fact that people are interested in buying a run-off book doesn't surprise me. There are a lot of people who are in that business. I am asking if people are thinking of buying it, attributing real value to the technology as well.

Mark Bayley: Well, we haven't yet—

Sir Amyas Morse: No, indeed.

Mark Bayley: Closed the deal; but they are interested in taking the technology, taking all the intellectual property, and developing significant business out of it. I am not sure if that answers your question.

Sir Amyas Morse: Thank you.

Mark Bayley: It is not just a run-off deal that is being looked at.

Q102 Chair: We have talked here about intellectual property before. I will not go down that rabbit hole today, because, although it is something important, we will probably look at this again once the sale is complete, if it does get to that point.

There is the £25 million stakeholder loan; for anyone who wants to look at the figures, page 16, figure 4 highlights the main loans. I am really particularly interested in the Department's £25 million loan as a stakeholder loan—that part of the £58.7 million. Can I just be clear what is going to happen to that? Is the taxpayer going to get back the £25 million? Is DECC going to get back the £25 million?

Mark Bayley: We have told our investors that the prospects for recovery in run-off of the stakeholder loan are non-existent.

Q103 Chair: That is what I understood, but you are absolutely clear. So £25 million of taxpayers' money went into the Green Deal investment bank—

Caroline Flint: Finance Company.

Chair: The Green Deal Finance Company—I am getting confused about different green investment vehicles—and that is now gone.

Mark Bayley: As things stand in run-off, if we achieve a transaction, there will be an element of recovery.

Jeremy Pocklington: We have impaired the stakeholder loan of £25 million in our accounts, on a cautious assumption that we will not receive the money back. What happens in the end will depend on how events unfold.

Q104 Chair: So in spite of the fact that there is intellectual property in this organisation, there is nothing, not a penny piece of that £25 million, coming back to the taxpayer?

Jeremy Pocklington: We have impaired that loan.

Stephen Lovegrove: As, I think, have the other commercial investors who put in another £33.7 million.

Q105 Chair: It is just that money was going in; at every stage money was being provided from the fund to prop this up.

Stephen Lovegrove: I have to say I thought this at the time, actually. I think the phrase “stakeholder loan” is a bit misleading. It is much more like risk—it is risk equity. It was the riskiest money that went in to set it up, and it has—

Q106 Chair: And you were aware of that.

Stephen Lovegrove: I was certainly aware that it was effectively carrying equity risk, yes.

Q107 Chair: So it was very clear, and that was made clear to Ministers, that there was that risk, at the time.

Stephen Lovegrove: Absolutely, yes.

Mark Bayley: The reason being, if I may, it is a not-for-profit company, so we could not issue equity in the conventional sense; so effectively we issued the stakeholder loan, which was equity with a capped return, but taking the same risk as equity.

Q108 John Pugh: Can we move on now to lessons learned? I really shouldn't be critical of the ECO scheme, because I had a look at the constituency data and I have to say my constituency is streets ahead in terms of ECO measures.

Stephen Phillips: That is down to the Member of Parliament.

John Pugh: I was going to say, that is a possible explanation; but I was wondering, as the level of implementation has varied across the country—and clearly implementation is important in any policy—have you learned anything from that?

Stephen Lovegrove: I think Mr Maxwell is probably in the best position to answer that.

Clive Maxwell: Yes. I have to check some of the details, but for the most part energy suppliers can carry out the installations or have those installations carried out where they want. In some cases they work with local authorities and other local partners. If they find them to be useful gateways to getting work done, they may well decide to partner up with local authorities.

Q109 John Pugh: So you do not really know why it works better in some areas than others.

Clive Maxwell: I can give you some observations, if you like, because I have spent a fair bit of time over the past year or two talking to local authorities who are involved in working in their local communities to make these sorts of things happen, and I do see a lot of variation. It often comes down to what that local authority is trying to achieve and how it can join up things with other sorts of policies. Can it make links between funding that is maybe coming from ECO with some other sorts of development funding they have? Can they bring it together—for example, at a local housing estate to do some solid wall insulation and to put in a heat network or something—to make other investments on the ground, where they see that as a package of things? It tends to be the authorities with the most ambition that make the most of these things.

Q110 John Pugh: Okay, so you have learned that local authorities perform differently and some are better than others.

Clive Maxwell: Very much.

Q111 John Pugh: Just going back to issues raised with the earlier panel, you have no assessment of third-party costs. I have heard a lot of anecdotal stories of people having boilers fitted who then have to pay for various other alterations to make their plumbing integrate with the new boiler system. You did not keep any data on that, and you do not have any data on that, I believe. Would you intend to do so in any further schemes?

Clive Maxwell: I think there is a case to be made—it is worth going through why we did not collect that data. We are mindful firstly that by having greater consumer and household contributions, that can reduce the cost to bill payers. There is a tension there. We have talked about bringing in private investment, and that is a form of private investment that gets leveraged in if you get some household contributions. There is a balance to be struck here. On the other hand, as we

heard from some of the other commentators, that might be more difficult for some households than others.

Q112 John Pugh: The fuel poor and the generally poor, yes.

Clive Maxwell: In terms of collecting data, as the NAO recognises in this Report, the Department is collecting much richer data about the energy company obligation than it is about previous supplier obligations. An area where we did not collect data for cost reasons and because of some of the challenge of gauging people's contributions was around those household contributions. I have to say that that is probably something that is worth thinking about for the future, if only on a sort of sample-type basis so that we would have a better handle on that.

Q113 John Pugh: You are also massively involved with the energy companies themselves. We are told that we cannot have data on who did best on which score. I am told anecdotally that Centrica—British Gas—got ahead of the game and fulfilled their obligations quicker than some others. Others held back for a range of reasons. Do you have data on that?

Clive Maxwell: Most of the data about compliance with the obligation go directly to Ofgem, which administers the scheme through its E-Serve activities. It collects that compliance data. We as a Department get told about the status of the scheme and how it is going. We also, as the Report says, get some data about some of the costs.

Q114 John Pugh: What I am trying to get at is: have you drawn any general conclusions or lessons for the future about how you—

Clive Maxwell: The main conclusion I draw is the one that Mr Lovegrove mentioned at the beginning, which is that a supplier obligation is an effective way of getting things done. You set targets in terms of carbon savings or bill savings, and you set those around timetables and they get achieved. That has been the evidence of this supplier obligation. It is also the evidence from previous supplier obligations. There is a striking additional thing in the case of ECO as a supplier obligation, and this comes back to the Department's impact assessments. If you look at the revised impact assessment that was done for the reformed ECO, the Department has very closely forecast the costs involved in delivering that. If anything, the outcome has been marginally better than the costs that the Department expected to be spent on ECO.

Q115 John Pugh: And you would not want to be critical of any particular energy supplier.

Clive Maxwell: No, I wouldn't.

Q116 John Pugh: Okay. The last question I am going to ask you was brought up in the previous panel and is in connection—we have dealt with it all along—with the mixed priorities and dealing with people in fuel poverty. I was party to a meeting not very far away from you in the Department of Energy and Climate Change with Greg Barker. Suppliers in my constituency were telling me that they were more or less giving up on fuel poverty measures because they did not pay

them—they were not rewarded effectively or in a timely way. Given that, the previous panel had the view that we need to have, running alongside any scheme, such as Eco or the Green Deal, a specific scheme dedicated and, as it were, ring-fenced to deal with fuel poverty in Scotland and other places.

Clive Maxwell: The first thing I would say is that the Minister has committed to bring forward plans for reforms to the supplier obligation. They announced a little bit about those plans in the spending review, and the fact that the scheme will be focused much more on fuel poverty in future. I think that goes some way to answering your question.

Q117 John Pugh: My last question is for the former permanent secretary. Throughout all the schemes that your Department has been involved in, there have been accusations of heavy administrative costs that either fall upon the Department or the suppliers or, in some cases, the person trying to apply for a Green Deal scheme. Do you think it is easy to get it right, and have you learnt any lessons about how to get it right, given that, if you do not, there will be accusations that you are running a lax scheme?

Stephen Lovegrove: The evidence of history tells us that we do not always get it right, that is for sure. We have not always found it easy to get right. We are very conscious of the administrative burden that we place on consumers and companies, and indeed sometimes on the regulator as well. I think that some of the changes that we have made over the last two or three years have been designed to build a degree of simplicity and durability into the administrative arrangements in some of those schemes, in a way that we perhaps should have done a little bit earlier. We can talk, if you would like, about some of the changes that we have made, for instance on consumer panels. We can talk about some of the ways in which we are trying to get a much better sense of what the consumer journey is likely to be for some of these things.

Q118 John Pugh: Can I just explain where I am coming from? It is genuinely from a constituency angle. I have had people complain to me in my constituency of two completely incompatible things. On the one side, sometimes organisations are basically fitting the wrong boiler because they have simply got a lot of those sort of boilers, and therefore it looks like a badly-policed scheme. Equally, I have had complaints from installers who said more or less the opposite. They are asked to provide checks not simply on what they are providing, but on things like the quality of the vehicle that turns up and does the job and so on.

Stephen Lovegrove: You put your finger on a tension, and it is a tension that we see in a variety of different places. For instance, the smart meter programme, which is about to start rolling out now.

John Pugh: That's progress. *[Laughter.]*

Q119 Chair: We started on that. We are back on that one as well. That might not be you, Mr Lovegrove.

Stephen Lovegrove: I don't know. Call me back from the dead again. There is an active debate about the level of intrusion, not only of the installer going into homes, but about the use of the data that the smart meters give, as opposed to making it simple.

Q120 John Pugh: I agree with that. Would you say your Department is getting a better feel for this?

Stephen Lovegrove: Yes.

Chair: Mr Pocklington should take that, I suppose.

Q121 Karin Smyth: On that issue of laxness and accountability, your Department does not have an accountability system statement, does it?

Stephen Lovegrove: The fact that we are wondering—

Karin Smyth: From memory, the Cabinet Office Report said you are one of the Departments that does not have an accountability system statement.

Chair: Yes, Karin Smyth is right. The NAO confirms that.

Q122 Karin Smyth: Do you think that understanding where the taxpayers' pound ends up might have helped you to have a better grip on some of these schemes?

Jeremy Pocklington: We have taken a number of steps over the past years to significantly strengthen the governance of the Department, and I think that is helping us to maintain a strong handle on the schemes that we have. I would highlight, for example, our strengthened investment committee, which will play an active role in looking at any reforms to major schemes that the Department is responsible for. That is set up to provide proper challenge to the Department and to check those underlying assumptions. We have a member of that committee who is specifically there to focus on consumer behaviours and whether we have that understanding of the consumer. This is something that we have focused a lot on as a Department and we maintain that.

Q123 Chair: How many people are there? You have one person on consumer—

Jeremy Pocklington: That is one—

Q124 Chair: Mr Maxwell wants to answer.

Clive Maxwell: We have an investment committee as a Department, like most large Government Departments these days, that considers big changes in policy and investments and things. We decided a year ago that we would strengthen that committee by having one person with a particular background in consumer issues to be checking exactly the sorts of assumptions that I think many people would argue went wrong in terms of the impact assessment the first time round.

Q125 Chair: Who is that?

Clive Maxwell: It is a member of one of my teams who comes from a background of dealing with consumer-facing issues in other bits of Government.

Q126 Chair: A career civil servant.

Clive Maxwell: A civil servant. In addition, we have as a Department over the last six months or so introduced an energy consumer board, which is another opportunity to kick the tyres of policies that are being developed to make sure they are thinking hard enough about consumers. As Mr Lovegrove said, we have done a number of things to make sure we are bringing in outside expertise to help us in these things, making much better use. We have a standing consumer panel arrangement, which means that a number of my teams, when they are developing policies, do not have to go through a long, off-putting process to bring in that consumer expertise. They instead can test people's reactions and response to things. They can trial things.

Q127 Chair: So the board has outside people.

Clive Maxwell: That involves some outside people.

Q128 Chair: From where, for example?

Clive Maxwell: That involves real consumers. To be clear, they are sample consumers. The consumer board brings in somebody who has a background from an energy company who does not work in the Department.

Q129 Stephen Phillips: So for the purposes of future impact assessments and modelling, are you now confident that you have the expertise in place so that someone can turn round and point at the modelling that went on here and say, "That's a pile of hogwash; you need to do that differently"?

Clive Maxwell: I am more confident that the Department can do these things.

Stephen Phillips: Are we ever going to see—

Clive Maxwell: Just coming back, if you are dealing with very innovative, ambitious things, all sorts of organisations make big errors sometimes about those things.

Stephen Phillips: If I may say, Mr Maxwell, rarely this catastrophic.

Chair: I am going to bring Karin Smyth back in.

Q130 Karin Smyth: It is slightly concerning that it does not seem to resonate with the panel. What grade of civil servant are you talking about who is holding the ring on this in the Department?

Clive Maxwell: Those major committees are chaired at the level of the executive board members, and I bring in commercial and consumer experts who are at a director or deputy director level.

Q131 Chair: How long before they join the structure?

Clive Maxwell: For that particular expertise to come into the investment committee is about a year. One of the things that I did soon after I joined the Department in early 2014 was to look at all of the Department's consumer-facing policies and the skills and sorts of things that were required in the Department. As a Department, we have long recognised that we need big commercial skills for big complex negotiations, but we also felt that we needed to improve the way in which we were looking at the demand side of things.

Q132 Chair: You lost sight of the consumer.

Clive Maxwell: So that was—

Chair: I think our constituents would agree.

Q133 Karin Smyth: Thank you for that. We have heard some very concerning things this afternoon about the grip on some of these schemes. My constituents in Bristol are particularly concerned about some of the lessons learnt around the Bristol green capital in terms of accountability for taxpayers' money. What sort of lessons have you learnt about accountability for taxpayers' money around the Bristol green capital?

Clive Maxwell: I am afraid I don't know enough about that to be able to answer the question. I will have to go away and find out for you.

Q134 Chair: If you could.

Clive Maxwell: I am aware of Bristol being the European green capital last year, but I'm afraid I do not know much more than that.

Chair: We will be pursuing that further.

Q135 Deidre Brock: You mentioned you had been going to various local authorities and organisations and seeing what worked and what had not worked in the past. Mr Smith from Energy Action UK mentioned several examples of good practice that were taking place in Scotland. How much discussion are you having with your counterparts up there?

Clive Maxwell: I have certainly talked to my Scottish counterparts and those from Wales.

Q136 Deidre Brock: What lessons do you think might be learnt from both Scotland and Wales?

Clive Maxwell: I think it is worth saying that there are different ways of doing things. I would be wary of jumping to say that the model that happens to be used in Scotland is automatically and necessarily the best for all parts of the UK. For example, finding ways for local authorities that are choosing to get involved in this sort of thing to pool knowledge and so on is very important, and I think that central Government can support that in some cases.

Q137 Deidre Brock: Yes, because there was quite heavy reliance on local authorities in Scotland in implementing these schemes, and on additional funding from Government, of course.

Clive Maxwell: Yes. It is worth coming back to the point made by one of your panel members earlier, who pointed to the successes of energy efficiency policies over the time period. Domestic energy demand, perhaps to people's surprise, has fallen by something like 19% since 1990. Consumption per household is now at the lowest level since the 1970s, and even gas consumption, which is the big cost for many people, has fallen significantly over the last decade or so.

Q138 Caroline Flint: But you are not claiming that the Green Deal and ECO are responsible for that.

Clive Maxwell: I am not. I am saying that ECO has played an important role, and the previous supplier obligation has also played an important role.

Chair: I also remember Decent Homes, a scheme that has nothing to do with your Department. It has been one of the biggest energy-saving greening homes schemes not just in this country but in Europe. It has been going on all this time, and is still going on.

Q139 Caroline Flint: We have had 20 or 30 years of energy efficiency schemes that have often worked through suppliers, and to which bill payers have therefore paid a contribution. We have had a number of different schemes, such as Warm Front. We have had boiler scrappage schemes and all sorts of things. It worries me when civil servants come before this Committee and we ask about learning, and they talk almost as if they are starting from ground zero. The truth is that there is a whole history of different schemes that have operated to tackle both reducing CO₂ and fuel poverty.

It is clearly a massive challenge, because by 2050, 80% of the building stock that we have today will still exist. I am trying to understand. Obviously we have got to look to the future, but it does seem that all the learning from previous schemes was not taken on board when the design of the Green Deal and ECO were put together. I just wanted to have a sense of how we can be reassured that what you are learning, not only from this scheme but from previous schemes, will come into being. Having one person on a board does not fill me with confidence about an organisation dealing with the culture of how they develop major projects. We are talking about the Green Deal and ECO, but it is about clarity on outcomes—an evidence base for how you are going to deliver it and data collection to make sure you are on track for what you have said you want to achieve. All those elements seem to have been absent from these schemes.

What are you going to do? Are we going to see more data collection? Are we going to see more trialling of schemes beforehand? Mr Pocklington, you are the acting permanent secretary. Is that being thought through at the moment before we come up with son or daughter of ECO?

Jeremy Pocklington: I think we have learned the lessons from the last 20 years or so of schemes. One of those crucial lessons is that supplier obligation schemes can and do work. At the heart of what this Government want to do in the energy efficiency space will be a reformed ECO. We will consult shortly on how we want to target that ECO on the fuel-poor, so that we can work with the supply chain and with industry to make sure that works. We will build in place a transition year so that we can manage that change.

More broadly, as a Department, we are very much focused on consumer testing and piloting. A very concrete example might be the electricity demand reduction pilots that we are running for relatively low sums of millions of pounds. That is an innovative scheme designed to encourage energy efficiency measures during times of peak demand. We have talked about what we are doing to make sure the Department is better aware of consumer behaviour. It is a lot more than one person on a board, although good internal challenge and good governance has an important role to play. It is also about having a consumer panel that we can access readily. Before, it used to take the Department weeks, if not months, to come up with a way of engaging consumers. We can now do that a lot more quickly. We have also heard from previous witnesses that the relevant teams in the Department are engaging and working very closely with the sector, as we are thinking about what other options Ministers will want to consider, in addition to the reformed supplier obligation. So we are very focused on learning the lessons.

Stephen Lovegrove: May I add to that?

Chair: Very briefly, Mr Lovegrove.

Stephen Lovegrove: Very briefly, going back to what I said at the beginning, the Green Deal was not a success; ECO was a success. ECO had 95% of the effect of these schemes. It produced savings of over £6 billion for low-income and vulnerable households—

Chair: We know the figures.

Stephen Lovegrove: Which was more than double the cost for the households. It saved 100 TW of energy.

Chair: Mr Lovegrove, we don't doubt the figures.

Q140 Caroline Flint: If ECO was such a brilliant scheme, why in December 2013, following ECO's launch in January 2013, did the Government announce reductions to the number of households that would receive energy efficiency improvements through ECO, and change the direction in terms of solid wall homes? To go back to an earlier point made by Mr Maxwell about supply chains, one of the things about developing supply chains in innovative areas, whether solar or solid wall treatments, is that you enable the sector to look at how they can devise better ways of delivering, at a more efficient cost, but you basically took the rug from under their feet. If ECO was so successful, who made the decision to change it and for what reason?

Stephen Lovegrove: As I mentioned earlier, the political discussion at the time—you will remember it very well—was about the affordability of energy bills. Ministers took a policy choice at that point. The coalition Government took the view that they wanted to place greater primacy on affordability rather than the longer-term measures.

Q141 Caroline Flint: So basically they were coming under pressure. Ed Miliband had announced the price freeze, and the Prime Minister was probably saying to Ed Davey, “Get something done on these bills. We want to have a nice £50 off bills.” Therefore, this scheme, with all its faults of design, was then further changed. It was political pressure.

Stephen Lovegrove: I would dispute that there were faults in the design.

Q142 Caroline Flint: It was the politicians who did it?

Stephen Lovegrove: I would dispute that there were faults in the design. The design was extremely effective and extremely predictable.

Q143 Caroline Flint: Can I pick you up on the design on the ECO side of things? As we have already determined, the number of properties with solid walls didn’t really match the number of properties with solid walls that were done under previous schemes. That might be because there was that decision to change the scheme at that point—a decision was made in December 2013—but also, there were costs incurred by suppliers of £0.9 billion and £6.2 billion of notional lifetime savings expected from measures delivered by 31 December 2015, and we have no idea of how that impacted on fuel poverty. Despite having a scheme that is basically paid for by suppliers and therefore bill payers—including some of the poorest households in our country coughing up a contribution to the scheme—we can’t even look at whether they actually got something better out of this scheme, in terms of dealing with their levels of fuel poverty, because there is no data or information on that. Is that correct?

Clive Maxwell: It is correct: the Department did not collect data about the contributions from households.

Q144 Caroline Flint: So although John Hills was brought in to look at fuel poverty and the definition of it, over the last five years we haven’t really been able to determine how much better off those people living in fuel poverty are through ECO.

Clive Maxwell: There are two aspects to that question. First, as I have said, we did not collect data about the household contributions; the Report makes that clear.

Q145 Caroline Flint: So we have no evidence to know.

Clive Maxwell: We do not know what the contributions are that households have made. In terms of the impact of these schemes on different sorts of households, to understand the impacts on fuel poverty you need to also collect quite detailed information about income, the households

that people live in and the state of the homes they are living in. We will have some information about what these schemes have done to different households' energy bills. We do not yet have that available for 2015; we will be getting that at a later date.

Q146 Caroline Flint: You, Mr Lovegrove, and others have said how great ECO is. You met your target, but it was lower than previous schemes. In terms of CO₂ savings, it saved only 29% of previous schemes over a similar period. In terms of solid wall properties, as was confirmed by the NAO, the average under previous schemes was something like £35,000 a year you said, Michael, compared with £23,500 under ECO.

You then combined it with Green Deal—because Green Deal was such a disaster and the Minister probably said, “Let’s couple them together so it looks better.” That was meant to be about stimulating private investment; that didn’t work. We don’t know what the impact was on fuel poverty. In terms of cost-effectiveness, schemes cost £94 per tonne of CO₂ saved, compared with £34 for CERT and CESP.

On top of all that, the Green Deal cost taxpayers something like £17,000 per finance plan arranged. I don’t think you can justify on either level that the Green Deal or ECO did what was promised, and certainly what was challenged by those on the Bill Committee but also the Major Projects Authority and the Select Committee on Energy and Climate Change, who were all raising alarms about the nature of these schemes.

Stephen Lovegrove: If I may answer that, ECO did exactly what was promised and it did it at a 4% lower cost to the end of 2015 than was originally anticipated. It hit its million homes target three months earlier and it saved exactly the amount of carbon that it was meant to.

Q147 Caroline Flint: We’ve all got a collective memory of what was achieved before, so on every level its targets were less ambitious than what had gone on before. Is that not the case?

Stephen Lovegrove: The reason for that was because what had gone on before had basically very successfully harvested the low-hanging fruit. As a result, the scheme was consciously designed, in some senses, to be more expensive.

Q148 Caroline Flint: Why, in terms of solid wall properties, did it on average do fewer homes than under the previous scheme?

Stephen Lovegrove: There has been some discussion about the numbers there. I think Mr Maxwell said that the average is going to be running at about 36,000 homes a year. That is roughly the same amount as was done before. The point I would like to get across is that ECO did exactly what it was designed to do. You may disagree with what it was designed to do. That is obviously perfectly legitimate. Indeed, the new Government are refocusing the ECO to have a much bigger focus on fuel poverty. That is obviously a completely legitimate thing to do.

Q149 Caroline Flint: I think I argued that point under the previous Government: that they should refocus that.

Stephen Lovegrove: In terms of the specifics of what ECO was meant to do—ECO is 95% of this picture and Green Deal is less than 5%—it has been a definite success, and a very good example, as I said before, of how certain types of scheme are much easier to manage and predict than other types.

Q150 Caroline Flint: It is only 5% because Green Deal did not work, isn't it? The actual outcome has led to that: 95% ECO, 5% Green Deal and maybe a few other things. But that is because Green Deal failed.

Stephen Lovegrove: We were very clear that there was a much higher degree of uncertainty around Green Deal than there ever was around ECO, precisely because of the point you made earlier: the lessons that have been learned around these kinds of schemes over the past 20 years have been fully imbibed and understood in the Department and we are good at designing them, depending on what you want to get out of them.

Michael Kell: Although it is true that ECO did achieve the carbon savings it was intended to at the cost that was initially assessed, those costs were higher than they needed to be because ECO had been designed to work with Green Deal, which increased the cost to suppliers of delivering the carbon that they were meant to. While it is true that ECO met its targets, it could have been more cost-effective if it had been designed in a different way.

Stephen Lovegrove: Given the relative scale of the two schemes, I would say that that would be very much at the margin, if true.

Q151 Caroline Flint: One aspect of the Green Deal Finance Company in terms of cost was that it needed to have a high calibre of staff in order to realise the investments that needed to come in for the loans. I think it was a £1.3 million bill for 13 members of staff, including £400,000 for your salary, Mr Bayley. What did that deliver for the taxpayer?

Mark Bayley: It delivered the pay-as-you-save system on time and within budget, which is an IT platform that can deliver pay-as-you-save financing in principle across the entire country.

Q152 Caroline Flint: Are you talking about the IT system?

Mark Bayley: Yes.

Q153 Caroline Flint: The figures for that are £1.5 million a year for a system that was meant to deal with 3.5 million Green Deal loans, but we got only 14,000. Is that correct?

Mark Bayley: But not in perpetuity. That contract comes to an end and can be renegotiated in about a year's time. In terms of remuneration—

Q154 Caroline Flint: But during this period, it is £1.5 million a year. Is that correct?

Mark Bayley: Yes, because that was the percentage of recovering the cost of the capital investment made in developing the system. It was delivered on time and within budget.

Q155 Caroline Flint: It was based on 3.5 million Green Deal loans, wasn't it?

Mark Bayley: That traces back to the problems with the forecast. Clearly, if we had realised that demand of that magnitude—

Q156 Caroline Flint: How much would it cost if we were going to have 50,000 loans?

Mark Bayley: I'm not sure it would be a substantial amount cheaper. You may not have done it if your forecast was 50,000 loans. The investment has been made, and it's there for many years to come.

Sir Amyas Morse: I just want to come back to something. If the Green Deal had achieved the scale that you intended it to achieve—we have been talking about the relatively small value of the Green Deal as against ECO; you have said that many times—would you have been making that same comparison? If the Green Deal had achieved the whole book size that it was intended to achieve, would the relationship between ECO and the Green Deal still have been that it was a small proportion, or would it have been quite a lot larger?

Stephen Lovegrove: Clearly, if it had saved 10 times as much carbon, that would have impacted on the proportion of carbon saved through these schemes, and, yes, of course that number would have been lower. Ms Flint, you put your finger on an important mistake that we made: we designed something that was likely to be successful, in commercial terms only at scale. That was a problem. If it had been successful at scale, it would have been self-financing and there wouldn't have been a drain on the taxpayer of any type at all.

Sir Amyas Morse: Throughout the hearing, you have been talking about the relatively insignificant size of the Green Deal, compared with ECO. Is it true that the only reason why you can make that comparison is that you didn't get the volume in the Green Deal that you ought to have got?

Stephen Lovegrove: I think I would have probability-weighted the carbon savings from those two schemes at the very beginning. I would have said that the carbon saving from ECO was very close to 100% certain to be got, and it was got. The carbon saving from the Green Deal, associated with the forecast that we talked about earlier, was very, very much lower. If I probability-weighted those two things, I think I probably would still have realised—in fact, I would have realised—that ECO was going to be the main driver of policy.

Clive Maxwell: Can I also note that the public resources involved in ECO under any of those scenarios would have been very many times higher than under the Green Deal finance arrangements if it had been successful?

Sir Amyas Morse: You are talking about an enormous book. If you succeeded with it, you would have an enormous book on the Green Deal. Your probability weighting argument is a good answer, but it doesn't change the fact that if you had actually achieved the volume you had in mind for the Green Deal, you would be talking about something that was—

Stephen Lovegrove: The carbon savings would have been much greater, yes.

Sir Amyas Morse: Yes. All the time you have been testifying that this is relatively insignificant, but it's only insignificant because it achieved no scale, if you will forgive me for putting it so bluntly. The way you have argued it—

Stephen Lovegrove: I have, I think, been completely frank.

Sir Amyas Morse: Thank you.

Stephen Lovegrove: I look upon ECO as a success, and a success at scale. The Green Deal was not a success. I don't think I can be plainer than that.

Sir Amyas Morse: Not a success at scale.

Stephen Lovegrove: We have talked about the legacy.

Q157 David Mowat: Mr Bayley, I am interested in the answer you gave Mrs Flint on the value that your organisation has delivered. I think you said that the IT system was delivered on time and on budget. Was it an outsourced delivery?

Mark Bayley: Yes, but we procured and managed the whole thing. I didn't have systems analysts writing software.

Q158 David Mowat: One of the issues that Mrs Flint came back to you with was the de minimis amount that you had to pay, and are still presumably paying because that was the deal. It could be argued that that was yet another failure to anticipate quickly enough the fact that this thing didn't reach the volumes that you hoped it would. Binding yourself into an IT contract based on higher volumes was a further management failure.

Mark Bayley: Well, we ran competitive procurement. We had several tenders for the system, and we chose the system that matched the forecast of the business plan that the investors wished to invest in.

Q159 Caroline Flint: Who is responsible for the forecast? Is it DECC, or is it yourselves?

Mark Bayley: We did not prepare the forecast.

Q160 Caroline Flint: So DECC was responsible for the forecast on which everything else was based?

Mark Bayley: Can I answer the question? The investors, as a whole, prepared the forecast. I wasn't there at the time, but in the summer of 2012 the principal investors and DECC, together, generated the forecast, I understand, on the back of the impact assessment.

Q161 David Mowat: Where I was going with this, in a sense, is that, notwithstanding your answer that it was the right system for what you were trying to achieve, when you were negotiating the contract it must have occurred to you that a range of outcomes, in terms of volume, would go through it. It may have occurred to the supplier as well, and therefore the supplier was pretty keen to establish a de minimis amount—the £1.5 million a year that you are locked into. All I am asking is whether, in hindsight, it would have been possible to have more flex so that, given that the volumes have turned out, for whatever reason, to be so much lower than we hoped, you would not have ended up paying so much.

Mark Bayley: I am not sure that that would have been possible, because the fixed level essentially recovered the investment that the supplier was making in the system.

Q162 David Mowat: Is it an open book contract?

Mark Bayley: Yes.

Q163 David Mowat: So you would know and could tell us about it?

Mark Bayley: Yes, we know exactly what level of money, profit or otherwise, these suppliers have.

Q164 David Mowat: So you are pretty content that, even on these lower volumes, the supplier isn't making any sort of unreasonable profits?

Mark Bayley: Absolutely. I confirm that.

Q165 Chair: While we are on that subject, what is the timescale for this sale to go through, roughly? What would be your guesstimate? Weeks? Months?

Mark Bayley: Two to three months from here on, if the sale goes through.

Chair: We flag our interest. We will want to look at that quite closely once it has been done, so we will be coming back to look at it with the support of the NAO.

Q166 Caroline Flint: So that I understand, in relation to the sale, will the taxpayer be getting any money back from what is outstanding?

Mark Bayley: The sale will preserve the £34 million loan facility, which will be recovered in full. We have no reason to write that down.

Q167 Chair: Which loan?

Michael Kell: Did you impair it? Will any of it be—

Mark Bayley: That is fully impaired. We are doing what we can in the sale to meet two objectives: to generate some recovery for investors and to ensure that the senior debt facility is as protected, if not better protected, through the transaction.

Q168 Chair: Just to be absolutely clear, because this is really important, the senior debt—figure 4—is safe?

Mark Bayley: Yes.

Q169 Chair: The junior capital, described here as £10 million, is safe? We heard earlier that the £25 million loan has gone. Did I mishear? Are you saying that that is wrong, or are you saying that, in the sale, you are trying to get some of it back?

Mark Bayley: Yes.¹

Q170 Chair: You are hoping to get some of it back?

Mark Bayley: Yes, an element of recovery from a position of nil.

Q171 Chair: So there is some hope.

Jeremy Pocklington: We have impaired that loan on a cautious basis.

Sir Amyas Morse: What is the carrying value in your company accounts of the systems that you have developed? Have you written those down?

Mark Bayley: They are being amortised over the short period of the contract.

Sir Amyas Morse: Just out of curiosity, what have they been written down to? What did they cost, and what are they written down to?

Mark Bayley: I do not have the detail.

Sir Amyas Morse: Isn't it about £30 million cost? So what are you carrying about in your balance sheet now? I am sure you have got an idea; you're talking to people about selling the company.

¹ Written clarification from witness 20/05/2016: "This answer 'yes' was in response to the question: "are you saying that, in the sale, you are trying to get some of it back?" The GDFC is indeed trying to achieve some recovery of the Stakeholder Loan investment in the GDFC through a possible sale. However, in responding to Q169, I did not have the opportunity to correct the Chair's assertion that the £10m of Junior Capital investment is 'safe'. In run-off only a small portion of the £10m Junior Capital investment is expected to be recoverable. Please note however that DECC is not invested in the Junior Capital."

Mark Bayley: I came here prepared to answer a range of questions, and I have the accounts with me, but that kind of question is far better addressed in a letter.

Sir Amyas Morse: You mean you don't know the answer.

Mark Bayley: I haven't got the precise figure in my head, and I am not sure that it is entirely reasonable to expect me to carry that figure in my head. I know what the balance sheet of the company is, but the precise level of amortisation in the system I don't think is—

Sir Amyas Morse: But there cannot be very many items in the balance sheet, and probably the biggest one is your—

Mark Bayley: Accrued interest on the stakeholder loan, in fact.

Sir Amyas Morse: So you are not prepared to answer that.

Mark Bayley: I am fully prepared to write to you after the sitting. I have come prepared to answer all the questions that I would expect, but to have full details of the balance sheet in my head, I am afraid I cannot do that—sorry, I fess up.

Q172 Chair: You can write to us in the next seven days with that.

Sir Amyas Morse: The only reason I was asking that was because you were assuring us of the great enduring value of this, therefore it is not unreasonable to ask in response, “So what value are you actually carrying?” It is not a very unfair question to ask in the light of your testimony.

Mark Bayley: The value of the system that we have created is that it is there to support the delivery of future energy efficiency policy by delivering a very efficient and financially inclusive financing mechanism for household measures. That system being there does that. The value that the Government may or may not get back, in terms of its stakeholder loan investment is a separate issue, and your recovery is not going to be great.

Sir Amyas Morse: Not going to be great.

Mark Bayley: But the system has a role in providing a financing mechanism for household energy efficiency that was not there before and is very financially inclusive, but nevertheless has a very low default rate. That is the emerging evidence, and that is the value that I am talking about.

Q173 Chair: I want to ask Mr Lovegrove a couple of points. You had to decide that it was acceptable to give, or lend, this £25 million of taxpayers' money to the finance company. Did you not look at the risks involved?

Stephen Lovegrove: Of course, and I just go back to my previous comment that thinking of it as a loan is not very helpful. It was called a stakeholder loan for a specific reason. It was money that was going in at the riskiest moment. It was effectively equity—it was equity risk. We took more of that equity risk, because it was a Government scheme, than any of the other 15 investors, who went in with the same instrument. All of us took a view that this was an instrument that it was worth investing in, so that included the big six, Kingfisher and all those characters. The total amount of that

particular facility was, I think, about £58 million or so; we were £25 million of it. It was equity risk and, under most normal assumptions, or the kind we are taking at the moment, it had to be fully impaired. But were we aware that it was risk equity? Certainly we were.

Q174 Chair: But your business case for the loan rather counteracts what you have just said. So if there was no realistic risk of insolvency—this is on page 17, just opposite figure 4 in Part Two of the Report, or the “Investigation into DECC’s loans to the Green Deal Finance Company”, because we have two Reports. At paragraph 2.7 it states: “The Department’s business case for the loan asserted that there was no realistic risk of insolvency and the risk that the stakeholder loan would need to be written off would only materialise in an ‘extreme downside scenario’.” What I can still not get my head around is how everyone sat around the table to come up with a business case for the Green Deal with so many warnings. When I started as shadow Secretary of State, frankly, I knew nothing about this, but my first conversations with departmental officials highlighted some of the very issues that the NAO in a big investigation has pulled out; Caroline Flint and her team picked this up; and there were the Major Projects Authority and various other groups out there all raising concerns, yet it was described by the Department as an “extreme downside scenario”—we just don’t understand.

Stephen Lovegrove: What I would say is that the extreme downside scenario happened—

Chair: But that was predicted by lots of people less expert than you—

Stephen Lovegrove: I am sure it was predicted by lots of people, but it was not predicted by British Gas, Carillion, CertiNergy, EDF, E.ON, Gentoo, Kingfisher or—

Chair: Or your Department.

Stephen Lovegrove: Or us, I agree. I cannot be clearer about saying that the assumptions on which this was based have been woefully inadequate.

Q175 Chair: It is beyond staggering that a bunch of amateurs, like me at the time—I certainly was at the time; I wouldn’t say the same of Ms Flint, because she did it for four years, so she is no doubt an expert—asked some basic questions in my first two or three weeks in the position, and there were no answers. The Bill was about to be laid before Parliament. There were no answers during the Bill’s passage, there were many other organisations raising the same concerns, and yet DECC and Ministers, in their wisdom, went ahead with it. Why didn’t you listen to any of those concerns?

Stephen Lovegrove: We did listen to those concerns. Obviously we listened to those concerns but the judgment was made at the time, not only by us but by PWC, ScottishPower and all these other companies, that this equity was worth investing in this company. Now that has turned out to be wrong. I have not got a problem with accepting that it is wrong.

Q176 Chair: But who is ultimately responsible? Where does the buck stop? You have all looked at each other, every time I say, “Who’s responsible?” You have said the accounting officer, Mr Lovegrove, which was you for some of the time—but in the end, who is paying? It is the British taxpayers’ money at risk. There seems to be quite a degree of complacency in front of us.

Stephen Lovegrove: Absolutely not. I really would contest that. There is no complacency whatever, but I cannot say often enough that the judgments that were made at the beginning about the security of those forecasts were wrong. That is understood. They were wrong on our part. They were wrong on the part of the other equity investors in the enterprise. They were wrong.

Q177 David Mowat: I think we all agree they were wrong. The question is how much of it is hindsight and how much of it could reasonably have been predicted. I am looking at figure 3 and the £12 million on consultants that you paid. Was that PWC? You mentioned PWC just now.

Mark Bayley: No, no. It was partly PWC, who contract with us at the rates that they would charge Government—that might be commercially confidential but it is too late. There were significant legal costs in set-up and establishment costs.

Q178 David Mowat: Legal set-up is separate; that is another £4 million on the line below. Consultancy is £12 million, in figure 3 on page 14. The figure in that column shows £12 million on consultants and then nearly £5 million on legal fees. That strikes me as quite a lot, relative to staff costs of £700,000. You are saying that most of that consultancy is PWC?

Mark Bayley: I don't have the breakdown in my head, but a fair proportion.

Q179 David Mowat: I understand the rate, but it is still quite a lot of days, even for PWC. They weren't doing any of the forecasting though? They were just helping you set up the processes?

Mark Bayley: I really hate to say this, but I joined the company in October as the first employee, in order to get it set up with its own—

Q180 Chair: October 2014?

Mark Bayley: 2012. A lot of the consultants and—

Q181 David Mowat: I can see that. That £12 million had already gone by then. Who authorised that then? Somebody before you?

Mark Bayley: The investors together—those in the room who were generating the forecast—decided they would invest the costs necessary to set up the procurement and so on.

Chair: Can we just be clear who these investors were? Figure 4 on page 16 of the Report on the Green Deal Finance Company shows that they were British Gas, Carillion, Cavity Insulation Guarantee Agency, CertiNergy, Department of Energy and Climate Change, EDF Energy, E-ON, Gentoo, Instagroup, Kingfisher, Newcastle City Council, Npower, PWC, Scottish Power, SSE, ThermaBead and the UK Green Investment Bank. The UK Green Investment Bank then had doubts. It is pretty staggering that these are pretty major players—including DECC—and you all got it wrong.

Q182 David Mowat: Your point, Mr Bayley, is that you turned up in October, and according to this chart at least, £12 million had already been spent on consultancy. As you turned up to become the CEO, did it look as though they'd just spent £12 million on consultancy? Did you see lots of things working and everything in place?

Mark Bayley: There was a lot set up in procurement, in writing the business plan, in preparing the information memorandum to raise the capital from the investors, in preparing the forecasts, the financial plan—

Q183 David Mowat: Just thinking about it—I am quite interested in this, now we've got to it—that £12 million was spent over a period of 6 months. That is quite a big team. Was it a team of about 30 or 40?

Mark Bayley: The costs are there. That was effectively finance—

David Mowat: I am just trying to translate that cost into a team size.

Sir Amyas Morse: Over 16 months.

Q184 David Mowat: Okay. So that is a spend of £1 million a month—20 days. Can anybody tell me the approximate size of the consultancy team that was involved? Does anybody know that?

Mark Bayley: The idea was to get them out of the building as quickly as possible, which I more or less did.

Q185 David Mowat: You did, but somebody else didn't. It may have been good value. I am just interested. You didn't take responsibility for the spend, though, because you came late.

Mark Bayley: I hate to say that, but it's true.

Q186 David Mowat: No, fair enough. I understand that. I suppose my question, then, is who did take responsibility, because when you listed all the investors, I was thinking "That doesn't mean anybody, really." There must have been somebody there who was accountable for authorising those PwC invoices or, indeed, the £5 million in legal fees.

Mark Bayley: A lot of that money was at risk. The company did have a board of non-executive directors at the time, but it also had a panel of prospective investors, who—

Q187 David Mowat: What you said just then is really interesting. You said that a lot of that money was at risk. PwC and the legal companies were putting that money in, but only when the loan arrived would they be guaranteed to get it back.

Mark Bayley: There was a development loan from DECC that financed some of the cost, but the expenditure was primarily controlled by a board. The board set up a panel of prospective

investors, who operated a cost review committee every month to check expenditure and do all the things that you would expect in a well-run company, except that it was staffed by outsiders rather than people within the company, because at that time it was just a shell.

Q188 David Mowat: Right. Were any of those outsiders on that board from PwC?

Mark Bayley: No.

Q189 David Mowat: But they were the people authorising it as it went on?

Mark Bayley: No. The board authorised the expenditure on the back of the discussions and review undertaken by the cost committee.

Q190 David Mowat: I am intrigued that you used the words “at risk”. Just so I understand, that implies that they are working on the assumption that they will get paid at a date in the future when the funding is in place. It implies that, when the financing was put in place by DECC, a large chunk of it was to pay back consulting fees.

Mark Bayley: PwC’s at-risk proportion is part of its investment in the company as it stands at the moment.

David Mowat: Yes, but this number isn’t the at-risk; this number is the money that was spent—

Mark Bayley: I am not sure how much of that was at risk at the time, but an element—

David Mowat: All right. That implies that there is more money, actually.

Q191 Stephen Phillips: So they got capital by writing off some of their fees, basically. Is that the way it works?

Mark Bayley: Yes. But it was a free world for the investors. When we were doing the finance raising in 2013, the investors could have said, “Look, I really don’t like this. I don’t want to be in on it.” They took the decision to come in on it and essentially refinance the development loan that the Report correctly says was provided by DECC.

Q192 David Mowat: Given how it has all worked out now, if you take the legal and consultancy fees of £17 million, how much of that has ended up being paid for by the taxpayer, versus the investors—just approximately?

Mark Bayley: DECC’s investment is 36% of the total investment made in the stakeholder loan and junior capital. That is separate from the £34 million loan facility. Essentially, DECC is a third of the investment.

Q193 David Mowat: So of that £17 million that was paid for legal fees and consulting, the taxpayer has paid about a third, and other investors have paid two thirds.

Mark Bayley: I think that is a reasonable way of looking at it.

Q194 Caroline Flint: It is fascinating, because all the time we are looking at learning and expertise and what have you. The Chair read out today a list of all these companies involved. A high number of those investors are actually the big six, which obviously had an interest in this because when it came to Green Deal loans, presumably they were also hoping to be part of the supply chain doing the work in the homes.

On the business case, the Report states at paragraph 2.7, under “Demand Forecasts”: “The Department’s business case for the loan asserted that there was no realistic risk of insolvency and the risk that the stakeholder loan would need to be written off would only materialise in an ‘extreme downside scenario’”. We have heard that actually that is exactly what happened.

The Report continues: “It”—that is, the Department—“cited the finance company’s business plan, which forecast a base case that it would purchase plans worth £300 million a year. According to the Department’s figures, this would have enabled the finance company to begin repaying its stakeholder loan after two years. However, the finance company told us that its base case was based on projections that its founder investors had prepared”—those projections have been read out to the Committee today—“including modelling in the Department’s 2012 impact assessment for the Green Deal.” Then the Report says, “The Department had not originally intended its impact assessment to be a robust forecast of demand for Green Deal finance, given the innovative nature of the scheme.”

It really seems a very sorry tale. This was a major scheme. It is not just the fact that it didn’t meet the objectives. If any of these schemes don’t work and customers feel that they’ve got a bad deal out of it and had a bad experience—I have to say that I’ve got a number of constituents in Don Valley who did not receive what they felt was a good deal from the green deal in terms of service—it breaks the trust in any of these big schemes. It is not just the fact that five years have been wasted; it is also the implications for future programmes, and regaining trust and ground in this very important area, because the cheapest energy we use is the energy we do not lose through our windows, our doors and the roofs of our homes.

So, Mr Pocklington, going forward, how can we feel assured that the recommendations that the NAO has outlined in its Report will be fully considered, that the response will be of a detailed nature, and that more taxpayers’ money, and bill payers’ money, will not be put at risk?

Jeremy Pocklington: We do accept the NAO’s recommendations. We think they are valuable, and I think we have outlined today to this Committee how we are already trying to take account of them in our work. We will, of course, respond thoroughly to this Committee’s recommendations in due course in the usual way.

However, at the heart of this, it is important that we learn those lessons from the Green Deal. For me, there are two fundamental lessons; we have covered them both today. The first is the need for more thorough consumer testing earlier in policy development, and the second is the important issue of not designing policies that are predicated on absolute delivery at scale. There

needs to be ability to flex policies as you learn the lessons—as policies are developed and implemented.

Q195 Chair: Mr Lovegrove, when you arrived in the Department, you picked up this scheme. You recognised that there were some issues with it. Did you challenge it and say, “Is it worth going ahead?” Do you have to consider any warning to Ministers?

Stephen Lovegrove: The accounting officer issues I considered had been dealt with. The scheme had been very recently launched. I think that my immediate feeling about the scheme was that some of the targets were very ambitious, so I asked for considerable attention to be paid to whether or not those installation rates were actually being met. When it became relatively clear that they weren’t being met, I then asked for a suite of improvements to be made to the scheme—

Q196 Chair: But did you think when you came in that it was improvable—really honestly?

Stephen Lovegrove: I find it very difficult to answer that question, because this is, as I said earlier, a very novel, unprecedented product, which nobody was in a particularly good position to be able to give very, very firm views about—views with a great deal of certainty that they would prove to be right.

Clearly, some people—members of the Committee—expressed criticisms of the scheme that did turn out to be right. Other perfectly well-qualified people turned out to be—

Q197 Caroline Flint: You say it is very novel, but Germany has a system. I’ve been to Germany and seen it for myself; I have met people from the bank involved. They work with regional banks. There is literally one A4 piece of paper that applicants have to fill in. So there are models elsewhere, in terms of loans to members of the public that deal with energy efficiency. Why wasn’t that picked up?

Stephen Lovegrove: The novelty here was that the loans were made to homeowners and were secured by the house, effectively.

Q198 Caroline Flint: In designing the scheme, did anybody bother to visit Germany?

Stephen Lovegrove: This is a KfW scheme, I assume. I don’t know the answer to that question, I’m afraid.

Q199 Chair: Could Mr Pocklington write to us on that? I am sure the records of the Department will throw that up. It is one of our concerns on the Committee that international comparisons are not always done as effectively as they could be.

Caroline Flint: There are American comparisons you can look at, too.

Chair: As a Committee, we would not criticise civil service expenditure on a visit that was useful for that purpose. I have to say that in case that is a concern.

Stephen Lovegrove: The only thing I would say, Chair, is that I am not aware that there was any international comparison where the security for the loan took this form. I am aware that there are consumer credit schemes that apply to the individual—

Q200 Chair: Sorry, we will not revisit all the discussion we had about consumer behaviour, but that was one of the main drawbacks of the scheme. I think that was the point Ms Flint was making.

Caroline Flint: You designed a scheme the public didn't like.

Mark Bayley: One of the things that we have seen when we have looked at the KfW schemes and, indeed, some of the loan schemes in Scotland is that the level of financial inclusion is much lower than what we achieved; it is essentially normal consumer credit lending, rather than the lending that we achieved.

Q201 Caroline Flint: I am sorry, Mr Bayley, but rather than what you achieved? You achieved 14,000 households. It's absolutely ridiculous. Also, in terms of the people for whom this was free or subsidised, they were getting that through ECO schemes or other schemes before that. This was meant for the ability to pay.

Mark Bayley: We achieved the ability, in principle, to lend to more than 80% of the population. I know the forecasts were wrong. The other thing we were able to achieve was generating from around a quarter of a million applications a week at the beginning of 2014 to £2.5 million-worth of applications a week, which I think is a reasonably significant number.

Q202 Caroline Flint: Applications are one thing; transforming them into solid plans is something else.

Mark Bayley: I still think that that level of applications shows that we had achieved significant growth. That is a significant amount of money going into energy efficiency.

Q203 Caroline Flint: How do you know?

Mark Bayley: Well, £2.5 million-worth a week is a significant amount of money, and it was growing. We were growing the business, and it is there for people to grow in the future, as I said before. Madam Chairman, if I could just answer the question raised earlier, now that I have managed to get our last accounts, which are not yet registered at Companies House, the level of intangible fixed assets, which is what Sir Amyas was referring to, is £1.145 million.

Sir Amyas Morse: I see. Roughly speaking, what was the historical cost of creating those assets?

Mark Bayley: Well, it is complicated by the fact that we are paying on a fixed fee together with that, but you're talking—

Sir Amyas Morse: Give us a ballpark number, come on. About £30 million?

Mark Bayley: You have seen the NAO's Report on the investment that has gone into the company to get an idea of the scale.

Stephen Lovegrove: Sir Amyas, I think we would also have to accept that book value doesn't always relate entirely to the economic value that might be ascribed by the people who are looking at it at the moment.

Sir Amyas Morse: I absolutely don't disagree with that, and you are quite right. I was not trying to make a misleading point like that. I was trying to understand when we get your details of the sale—

Mark Bayley: If we go through with that.

Sir Amyas Morse: Supposing we do, simply managing to realise book value is not something you're going to be receiving confetti for—you'll appreciate that. In other words, when you sell—if such a deal is done—we are going to be interested in comparing what the costs of creating those assets were against the price, when you give us your details.

Mark Bayley: In my view, the essence of a sale will be to reactivate pay-as-you-save lending as a mechanism for financing household energy efficiency. That is the really important goal.

Sir Amyas Morse: Is that the view of the Department—that even if it is a very low sale price it will be okay if it reactivates? If somebody comes along and says, "I'm going to reactivate this type of lending," and you say, "That's okay, you can sell it for a low price," is that your fixed intent?

Clive Maxwell: I don't want to discuss a commercial negotiation in public, but I would say that we have a comparator, which is the value we think we can get from the company through the run-off arrangements.

Meg Hillier: We are going to come back and look at this, without doubt.

Q204 David Mowat: I have answered my own question in terms of the size of the consultancy team that was on the ground, admittedly before you got there, Mr Bayley. The assumption is you were paying about £1,000 a day, or perhaps it was more than that. There was an average team of over 40, which implies they were peaking at perhaps 60 or 70. There were a lot of consultants from PwC on the ground in this period—it was before you got there—and I understand there was an investor consortium. Who was signing the invoices? Where did accountability lie? Were any of you around at that point?

Mark Bayley: Accountability for everything done in the name of the company is clearly with the company's board.

Q205 David Mowat: I understand that. Was there a project director or project manager? DECC was paying for a third of a project team of 60 consultants at the peak. I just think some people would have had a passing interest in that and whether it was value for money.

Mark Bayley: There was a great deal of scrutiny of all the costs incurred.

Q206 Chair: Who by? Was it the board? Was it the chair of the board?

Mark Bayley: As I said earlier, the board set up a panel of prospective investors who knew what was going on—

Q207 David Mowat: Who signed the invoices?

Mark Bayley: I really haven't inspected the invoices. They were signed on behalf of the company and I assume there would have been a board signatory to them because there were no employees.

Q208 David Mowat: That implies very little control to me. It implies group-think control. You sound like a perfect client if that is the way it was because there is no point accountability in there.

Mark Bayley: There was every accountability, and from the start the company followed the governance practices of a public listed company.

Q209 David Mowat: If that was the case, perhaps you would prefer to tell us who had that accountability in that company.

Mark Bayley: The board of the company. I do not know which particular individual signed the invoices, but the board took advice from prospective investors who were not particularly involved, if at all, in earning fees. They were not signing their own pay checks.

Q210 David Mowat: So everyone on the board was equally accountable for that.

Mark Bayley: Yes.

Q211 David Mowat: So no one was individually accountable. They were all accountable together.

Mark Bayley: I am having difficulty answering the question. Can you—

Q212 David Mowat: I am trying to be clear. When a large amount of public money is spent on, in this case, consultants, they may have been good value, but I am trying to understand the processes around that. For example, the team size in that period was an average of 40. It could have

been an average of 30 or perhaps it should have been 60. Who was making the decisions on how big that team size should be, what work you decided to do with consultants versus in-house staff, and all that stuff? I am just trying to get to where that point accountability lay because that money eventually became public money, or a chunk of it did.

Mark Bayley: Okay. The board of the company, which had no employees, was accountable for the expenditure of the company. The board took advice from a small group of probably four, five or six prospective investors, none of whom had a stake in the fees being paid by the company.

Q213 Caroline Flint: Am I correct that DECC was on the board?

Mark Bayley: No. DECC was not on the board.

Q214 David Mowat: Why not, when it would have a third of the costs eventually?

Mark Bayley: It was before my time, but DECC provided the development loan facility which is referred to in the NAO Report, and that facility had controls. DECC was scrutinising the costs, as indeed were the other prospective investors.

Q215 David Mowat: Given that public money was eventually going to be spent—a third of it—it seems odd that was the case.

Mark Bayley: You asked me who was accountable—

Q216 Chair: Sorry, on page 12 of the Green Deal Finance Company report under paragraph 1.5 the first bullet point starts: “The Department had an observer seat on the finance company’s board.”

Mark Bayley: That was after financial close, after the end of March 2013. We are talking about the arrangements in the summer of 2012 when the whole thing was being formed like a star from dust, if you like, although that is probably the wrong way to describe it. The prospective investors formed a group of people who knew what they were about and who would not be getting paid the fees—*[Interruption.]* Well, looking at who I know was involved, they certainly had their heads screwed on about the costs being incurred, knowing as prospective investors—

Q217 Caroline Flint: Is that the list of people that the Chair read out?

Mark Bayley: Some of them, yes. The panel was formed of representatives of those companies, none of whom were being paid fees by the companies. The panel did the legwork, if you like, each month reviewing the costs and what was done, discussing what work should and should not be done and so forth. The board was nevertheless accountable and responsible for actually signing the cheques. Who on the board signed the cheques? I’m afraid I don’t know.

Q218 Chair: Who was chair of the board at that time? Forgive me; I can't remember.

Mark Bayley: Martin Callaghan.

Q219 Chair: Right. So ultimately, he was responsible.

Mark Bayley: Well, the board was. As Mr Mowat said, everybody on the board has equal responsibility for the company. It was a collective decision by the board, but the important point is that there was a very significant degree of scrutiny of the costs and what was going on, and a view taken pretty regularly, from what I understand, on "Is this going to result in a deal, financial close, when the whole thing can be refinanced, or not?" If it had not come to that conclusion, it would have stopped much earlier.

Q220 Chair: Mr Lovegrove and Mr Pocklington, the NAO has done a Report on arm's-length finance companies. What do the taxpayer and DECC get out of this once it is sold? You say it is a prize and a new model of paying for things, and that that is the bit of the Green Deal that we should be proud of. What will the British taxpayer get out of it if this company is sold into private sector hands?

Stephen Lovegrove: Just to think about the money for a moment, the loan that went in at the beginning of 2015 or the end of 2014—

Q221 Chair: So this is the £25 million?

Stephen Lovegrove: No, this is the £23.5 million, the senior debt. We made a facility available of £36 million, and £23.5 million of it has been drawn down. We are confident that that will come back. We are not confident that any of the £25 million, which was the equity that we talked about earlier, will come back. There is a possibility that we may see some return on that, but as Mr Pocklington has said, on a prudent basis, we have impaired that totally.

In terms of what the public can get back out of this, I think that the heart of this goes to what Mr Bayley was saying about the existence of the pay-as-you-save mechanism, which will, I hope, be used by somebody potentially to come up with a better pay-as-you-save type of product that works better than our original one did.

Q222 Chair: You say "by somebody". Let us say for argument's sake that the Department sets up a similar scheme, which is hopefully more successful. Would you envisage this—now privatised if it goes through a company—runs the financial side of it completely separately from Government? When you say it is useful, is it useful for any future energy savings?

Stephen Lovegrove: I am afraid I find it difficult to answer that question. I don't know the appetite and intention of the potential buyers that Mr Bayley is talking to. Clearly, some of them are investigating whether or not this mechanism can be used—

Q223 Chair: So you can't answer that, yet there may be a future scheme with this prize possession, which is pay-as-you-save, but the mechanism, the IP, could be completely gone for the benefit of Government. So Government would either have to buy it and restart it, or—

Mark Bayley: I am pretty clear from what I know of the objectives that anybody who pulls up to the company saying, "I'd like to use your systems to put through pay-as-you-save loans," would be welcomed with open arms. It's all about achieving growth. We achieved a good measure of growth. It wasn't the growth forecast, but it was, I reckon, reasonably significant, and they want to take it from there.

Q224 Chair: It is not for profit as it stood, but when it is sold, it will be for profit, so that will mean—

Mark Bayley: Yes, it will become fully commercialised.

Q225 Chair: So there is potential for an increase in interest rates, for instance. That would be one obvious way of—

Mark Bayley: It is going to the limits of what I can fairly disclose, but I would be very surprised if that were the case.

Stephen Lovegrove: Probably the most accurate answer would be to say that we plus the other owners of the stakeholder loan—that equity—will be advised by the board on the right stance with regard to any deal that comes forward.

Q226 Stephen Phillips: One of the important things, Mr Lovegrove, is that if Government ever again needs access to the intellectual property, and it has been sold to a private third party, Government must have that access without that third party having the Government over a barrel as regards the cost of something that has already been funded once—in part, at least—by the taxpayer.

Stephen Lovegrove: Those are fair points. Those are conversations that we need to have with the other members of that consortium who invested in the stakeholder loan, because they have exactly the same economic rights in this as we do.

Q227 Chair: But you have decided that it is going now. If the sale goes through, that is it—it is gone.

Stephen Lovegrove: I haven't made any decisions—

Q228 Chair: Sorry, Mr Lovegrove, we are talking about the intellectual property, just so we are clear. If the sale that is currently under discussion goes through, as Mr Phillips rightly highlights, that intellectual property—

Stephen Lovegrove: We have not received any proposals. No decisions have been made. This is clearly something that would need to be discussed with a number of people.

Stephen Phillips: Given that a sale is in prospect, I think you have a steer from this Committee as to what advice to Ministers probably ought to be, which is: do not lose access to the intellectual property, because we might need it again in the future.

Q229 Chair: We have got very big concerns there. The final point I want to raise—time is marching on and we all as a Committee need to be elsewhere, too—is on the robustness of departmental analysis. This is not the only time we have had this conversation or the only Department we have had it with.

We have got two accounting officers in the room. Mr Pocklington might be glad, after this hearing, to relinquish the role on 4 July, but there are two of you here. What feedback are you going to give on this? I will not list all the other Departments, but we have had cases where a departmental analysis is passed to the company, whether private sector or consortium, that will take on the challenge; they rely on that as accurate and the Department says that it was never meant to be entirely robust. What lessons are there for the future? What would you personally do and what will you do to ensure that the Government learn from this in terms of analysis?

Stephen Lovegrove: I personally feel that the biggest lesson we can learn from this is that certain types of schemes—ECO being one, as I said to Mr Pugh earlier—are much easier to control and forecast the success of than others.

Q230 Chair: Yes, you have made that point. I am talking about the analysis.

Stephen Lovegrove: These demand-led schemes certainly need to be looked at with a much higher degree of caution. Within limits, there is almost no amount of consumer testing that we should not be doing, because they are inherently much more risky.

Q231 Chair: Sorry, I will reiterate the point. Perhaps I was not clear. We have other Departments that have also done analysis and it was never meant to be the full commercial analysis or the full consumer analysis done for the private company that then bids to run it. The private company, however, was not aware of that and takes it as gospel truth or, if you like, Whitehall truth and uses it; then they hit problems. There is a mismatch between the Whitehall understanding of what is realistic and commercial understanding of what is realistic. We have seen that in this case as well. Do you think that there is a gap? Do you agree with that analysis? Secondly, what would do to ensure that that gap is bridged in the future?

Stephen Lovegrove: I do agree that there are plenty of instances where Whitehall analysis of what might happen in a marketplace has turned out not to be accurate, and this is an example of that.

Q232 Caroline Flint: Do you think you have been overconfident in the market coming up with solutions?

Stephen Lovegrove: It is important to have in mind that no completely new product can look at a long history of examples. By definition, you cannot look at a long history of examples from which you can extrapolate very reliable forecasts—that almost goes without saying. I would not want Whitehall to feel completely hamstrung and not ever try to think of interesting, innovative policy instruments. Going back to what Mr Pocklington said earlier, we need to test these things to destruction to the extent that we can, and we need to be clear, to go back to the point I made earlier, where we feel the probability weighting—the certainty that we have around these forecasts—is.

Jeremy Pocklington: May I add three quick points in addition to that and in agreement with that? First, it is about internal testing and scrutiny of policies as they are being developed, including getting in people external to the project and their Department on audit and risk committees, for example, so that there is proper scrutiny and challenge. Secondly, it is about not focusing so much on point estimates but being aware that it is important to focus on ranges of possible outcomes. Thirdly, asking that, “What if” question, such as “What if the future doesn’t turn out as we are forecasting?” is particularly important in innovative policies.

Q233 Caroline Flint: I totally agree with you on all that, but it is not rocket science. When the Energy Bill was going through Parliament in 2011, all the issues that we have pretty much covered today were being asked. They were being asked to Ministers in Committee and on the Floor of the House. Other organisations outside Parliament were raising concerns. All you got back were assurances that it was going to be alright and what have you. Once the legislation went through—you can go back to *Hansard* and to various Select Committees—other organisations such as the Major Projects Authority, were raising alarms as well.

It was not that there wasn’t scrutiny. There was scrutiny. The question is what happened in the Department that meant that that was not being heard and acted upon so that it could either come back with a more robust explanation about why those points were not valid or could take a breath and say, “Look, let’s just have a look at this scheme and take a pause.” It is not that that scrutiny was not there. What is worrying from a parliamentary perspective is when, in good faith—put aside partisan point scoring—legitimate questions are asked and do not seem to have been followed through. In the Reports from the NAO, it seems to be déjà vu about what was being said over the period and life of this scheme. Do you accept that?

Jeremy Pocklington: The Department I see at the moment—and I joined the Department in February 2015—does have a lot more robust scrutiny in place and is learning the lessons from innovative policies such as the Green Deal. It is very difficult and requires continuous effort.

Chair: Like Sellafield. There are other examples in your Department.

Caroline Flint: The NDA.

Chair: Time is marching on. We will be coming back to look at DECC.

Q234 Caroline Flint: Do you think you have too few people in your Department to cope with these schemes? Was that the problem in the past five years?

Jeremy Pocklington: No. I can only talk for the Department that we have today. I think we have sufficient resources for the policy challenges that we are dealing with.

Chair: I think a lot of the people who were responsible are no longer around, which is one of the endless problems.

Q235 Stephen Phillips: If we look back at the impact assessment, the combined monetised benefits of the Green Deal, ECO and everything else were more than £25 billion. We have focused in this hearing on following the taxpayer pound—the money that is potentially being lost to the taxpayer subject to this sale. In the great scheme of things, that £25 million is a lot of money, but it is not £25 billion. Now, a lot of that £25 billion will no doubt have been associated with ECO, but all that £25 billion of monetised benefit to society, which went as part and parcel of the Green Deal, has simply not come to pass. That is right, isn't it, Mr Lovegrove?

Stephen Lovegrove: The £25 million that was DECC's part of the stakeholder loan—

Q236 Stephen Phillips: I am moving away from that; I am looking at this. The monetised benefits to wider society, in the impact assessment, of all the measures together were £25 billion. Now, several billion of that will have been associated with the Green Deal; it is actually impossible to unpack precisely how much, from the impact assessment. However, that money has essentially not gone to benefit wider society, as was in the impact assessment. So society as a whole, irrespective of how much the taxpayer has lost, has lost billions of pounds as a result of the failure of this policy.

Stephen Lovegrove: That feels to me like a stretch as an analysis.

Q237 Stephen Phillips: Why? Is the impact assessment wrong on the £25.6 billion?

Stephen Lovegrove: I do not have the impact assessment in front of me, but if it is saying that the combined estimated value of these schemes—to monetise benefit to society—is £25 billion, clearly the impact assessment, as we have just mentioned on a number of occasions during this hearing, was wrong about the scale of that.

Q238 Stephen Phillips: But this is a very different part of the impact assessment, because this is somewhere you do actually monetise, in accordance with standard, sound economic principles, what the benefit is to wider society, and it says it is £25 billion. Even if it is £1 billion that is associated with the Green Deal, that is essentially money that has been lost to society as a result of the failure of this policy.

Stephen Lovegrove: I wouldn't put it like that.

Q239 Chair: It should not have been in the impact assessment. The point is that it was there and it was flawed.

Stephen Lovegrove: I am afraid I don't have the impact assessment in front of me. I would say that the estimated £25 billion is clearly not available to society and may well never have been—probably wasn't.

Q240 Stephen Phillips: There are lots of benefits on the front page of the impact assessment, which were not monetised: job creation, improvements in health as a result of warmer houses—not monetised. Those benefits associated with the Green Deal have also not materialised, have they?

Stephen Lovegrove: I think many of those have, although I do not know to what extent we would be able to monetise the exact effect of it.

Q241 Stephen Phillips: It was not sought to be done in the impact assessment, no doubt for a very good reason, but those benefits associated with the Green Deal part have not materialised—it is obvious.

Stephen Lovegrove: All of the 1.4 million houses that have received some form of measure have probably had some kind of health benefit as a result. I do not know whether one can be precise about that, but I would say that there are a lot of—

Q242 Caroline Flint: You don't know whether they were in fuel poverty, so you can't say if it is a health benefit really.

Stephen Lovegrove: On the Affordable Warmth issues, because some of the ways in which the various component parts—

Q243 Stephen Phillips: I was just looking at Green Deal. The Green Deal, which was supposed to be millions of properties, ended up being however many it was—14,000.

Stephen Lovegrove: I don't know how many more times I can say this: I accept that those predictions were wrong.

Q244 Stephen Phillips: But it must follow from that, Mr Lovegrove—please accept it—that the non-monetised benefits that were associated with the Green Deal part of this whole package have not materialised.

Stephen Lovegrove: They have not materialised. Whether or not that is exactly the same as saying the taxpayer has lost £25 billion, is rather a different matter.

Stephen Phillips: I never said the taxpayer has lost £25 billion. I said wider society as a whole, which is what the impact assessment says.

Stephen Lovegrove: I apologise. Whether or not that is quite the same as saying wider society as a whole has lost £25 billion, is a bit of a stretch.

Stephen Phillips: We may differ on that.

Chair: Thank you very much for coming. We will come back to look at the sale, if it goes through, so some of you will be back here again in a few months' time. We look forward to meeting Mr Pocklington's successor; I am sure he is excited about the prospect. The transcript will be on the website in the next couple of days, uncorrected, and our report will be out, probably, in July, so we will send you a copy of that. Thank you.