Written evidence submitted by GDFC Group Limited (ENE0020)

Introduction

The Green Deal Finance Company Group (GDFC) was established in 2012 to support the UK Government's Green Deal programme. The scheme enables consumers to take out loans to finance measures to improve the energy efficiency in their homes and to repay those loans through the electricity bill of the property. The scheme ensures that the person benefitting from the measure – the energy bill payer – is responsible for the loan repayment.

Historically, GDFC supported the programme by setting up, financing and administering Green Deal loans, which were provided by accredited third-party Green Deal Providers (GDPs). The scheme ceased operating in 2015 following a change in government policy and, in January 2017, GDFC was purchased by private investors. GDFC continues to administer the existing Green Deal loan book and finances loans for energy efficiency measures.

This submission reflects GDFC's extensive knowledge and understanding of the factors constraining the implementation of energy efficiency measures in UK residential properties. It also makes recommendations about how the government might increase the take-up of energy efficiency measures to help meet its targets in this area as well as deliver against a number of wider objectives such as creating warmer homes, lowering consumer energy bills and improving people's health.

Summary

- GDFC believes that the Green Deal's 'Pay As You Save' (PAYS) model for delivering energy efficiency measures is a highly attractive proposition.

- GDFC believes the Government could utilise the PAYS mechanism to deliver further support for homeowners in order to encourage maximum uptake in energy efficiency installations at much lower cost than conventional subsidy and grant schemes.

- GDFC believes reforms to the Green Deal framework would increase the uptake of energy efficiency measures.

A Green Deal loan is a highly attractive mechanism to improve energy efficiency

1. The Green Deal scheme allows investment in energy efficiency even when the owner is not intending to remain in the property for the long term. As the finance is linked to the electricity bill for the property, there is no disincentive from installing improvements even if the owner intends to sell the property in the short or medium term.

2. Because Green Deal loans are repaid through energy bills, and defaults on energy bills are typically very low, Green Deal loans can be offered to a wider range of credit scores at lower rates than conventional consumer finance. As such the Green Deal provides finance to those who would otherwise be unable to obtain credit e.g. those with poor credit scores (who are also the groups which are likely to be fuel poor and living in energy inefficient homes).

3. Green Deal loans are an ideal mechanism to allow the elderly to improve the energy efficiency of their home, due both to the fact that the loan remains with the property and that the repayments are made over the life of the measure and are therefore generally more affordable than on a conventional consumer loan. A Green Deal loan allows an elderly person to make fundamental improvements to their quality of life without having to use what may be essential savings. This is particularly significant given the recent warnings by Age UK that "older people [who] live in poorly insulated homes and worry about turning up the heating during the cold months, [can increase] their risk of ill health."[1]

4. A Green Deal loan allows landlords to upgrade the energy efficiency of a home whilst sharing the cost with the tenant. As the finance is repaid through the property's energy bill the improvement is paid for by the person living in the property and benefitting from the measures. This removes the disincentive to landlords to install energy efficiency measures, who would otherwise pay for the improvement but receive no benefit.

5. The Green Deal's PAYS mechanism is very attractive for consumers. GDFC's experience is that the ease and simplicity of paying for the measure through the electricity bill is perceived by consumers as a significant advantage over conventional consumer credit. Consumers like the simplicity of paying one bill and are attracted by the affordability of longer repayment periods. This is illustrated by the spread of credit scores across the GDFC loan book which includes not only consumers with lower credit scores but those with prime credit scores who would have a full range of finance options open to them.

Utilisation of PAYS mechanism to deliver further support

A key benefit of the Green Deal scheme is that it can work independently of government subsidy while still being highly attractive to a broad range of consumers. It has the potential, however, to be utilised to a far greater extent. GDFC believes the PAYS mechanism provides a fully established framework which can be leveraged to increase uptake of energy efficiency whilst delivering value for money for government and consumers.

Value for money for government and consumers

GDFC recognises that the government may wish to prioritise the provision of financial support to improve energy efficiency where there is a need to shift behaviours in the market, to support financially disadvantaged individuals and to encourage the uptake of energy efficiency. GDFC's experience, however, is that a number of the historic Government schemes have created perverse behaviours in the market through the subsidies and that subsidies also de-valued measures to such an extent that the market failed when the subsidies were withdrawn. GDFC believes that providing financial support in combination with Green Deal loans (for example, through subsidising interest rates) would allow the government to deliver increased levels of energy efficiency in the UK but on

[1] https://www.ageuk.org.uk/latest-news/articles/2017/november/dramatic-jump-in-excess-winter-deaths/

a co-pay basis, maximising the value for money for the tax payer and developing the market value for energy efficiency.

Clarity on energy efficiency

The EPC on a property with a Green Deal Loan discloses the measures that have been financed by the loan. Use of a Green Deal loan to finance energy efficiency therefore provides full transparency of the energy efficient enhancements that have already been made on a property and those which remain available, Given that the EPC is publicly available and already embedded as a requirement of the lettings and conveyancing processes, this transparency provides a significant advantage in raising awareness with consumers[2].

Incentivisation

Given the national interest in improving energy efficiency of the UK housing stock, GDFC would like to see a greater incentivisation for homeowners and landlords to improve the energy efficiency of their properties. Examples could be a reduction in stamp duty or council tax for properties which have a Green Deal Plan attached. The use of the Green Deal plan as the trigger for the incentive would provide a robust but simple mechanism to ensure the incentive was not abused, and the fact that all the infrastructure is already in place would allow such an incentive to be introduced with minimal upfront cost.

The current Green Deal framework disincentivises uptake of energy efficiency measures

GDFC believes that consumers are often dis-incentivised to adopt energy efficiency measures due to over-regulation, complexity and confusion regarding the Green Deal. Making the process easier and communicating the ease of this process to homeowners could deliver a substantial increase in up-take levels.

GDFC outlines below the principal concerns and potential solutions.

a. The Golden Rule (which stipulates that savings in the first year on energy bills must be equal to or greater than the loan repayments that year) is confusing and misleading for consumers. It leads to the savings being presented as guaranteed when the reality of the savings calculation is that it is based on assumptions and averages that will seldom match actual use. Furthermore, the Golden Rule acts as a cap on the amount that can be financed through the Green Deal which means that consumers either have to find additional finance to pay for the installation of measures or only install lesser measures which have a smaller impact on the home's energy efficiency.

[2] It should be noted that the EPC disclosure of Green Deal loans is not functioning appropriately at present due to the fact that disclosure of the Green Deal is only made where the EPC search is carried out on the report reference number and not on the post code for the property. This is a fundamental error in the design of the scheme that needs addressing.

b. The EPC should be used as the primary focus for educating property owners on the possibility of energy efficiency improvements, as long as improvements are made to its searchability. GDFC does not see the need for a separate Green Deal Advice Report (which outlines to homeowners which efficiency measures could be installed in their property) which currently serves to increase the cost of installing measures via the Green Deal and requires multiple visits to the consumer's home.

c. The requirement to have a separate installer accreditation scheme for Green Deal financed installations is off-putting to potential installers who are unwilling to undertake a separate set of accreditations and confusing for consumers who need to grapple with multiple accreditation schemes. However, any relaxation of oversight for the Green Deal should be replaced with a requirement for installations to be carried out in accordance with a highly effective quality mark scheme, such as any that may be implemented as a result of the "Each Home Counts" quality review. In turn, this would be simpler for consumers to understand.

d. Under the current structure of the Green Deal scheme, a Green Deal Provider is required to be authorised both by the Financial Conduct Authority as a lender and by the Green Deal Oversight and Registration Body as a Green Deal Provider. This dual regulation leads to increased cost, significant barriers to entry, confusion and consumer detriment. GDFC believes simply requiring one body of authorisation would be adequate protection and streamline the process.

e. The Green Deal Code of Practice should be refocussed. It should not duplicate matters which are covered by other regulation as this leads to confusion and potential risk of inconsistent regulation. It currently covers a number of different elements for consumer protection which are merely re-iterative of requirements that derive from other sources, e.g. the need to have listed buildings or other consents. It should be confined solely to those elements which are unique to Green Deal, like the need for opening and closing statements. Furthermore, it should be based on consumer outcomes, not prescriptive inputs.

f. There are other technical improvements which GFDC would also recommend around administration of the Green Deal scheme. These have been covered by multiple submissions to BEIS and so we have not reiterated them here. However, we would be happy to provide further information to the committee as may be requested.

In our view, addressing these issues would make a significant difference to the uptake of installation of energy efficiency measures. It would remove the disincentives from the Green Deal Scheme, improve the incentives to uptake and deliver a more energy efficient housing stock.

Recognising that this is a high-level overview of the issues at hand, GDFC would welcome the opportunity to discuss these proposals with the committee in more detail.

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