



Campaigning for Warm Homes

NEA Green Deal and Affordable Warmth project

Practical Assistance for local Communities – Transition Belper

Green Deal and the Energy Company Obligation Briefing Note

1 Introduction

The Green Deal is the Government's new proposal to improve the energy efficiency of the UK housing stock, complemented by the Energy Company Obligation (ECO) for low income households and hard to treat properties.

The policy aims are to reduce carbon emissions, reduce dependence on scarce energy, improve homes and to reduce fuel poverty. It is designed to overcome barriers such as the upfront cost and long payback times of energy efficiency measures, the lack of awareness and perceived difficulty of making improvements. By meeting consumer's needs, the Green Deal aims to increase the energy efficiency market, thus helping economic growth.

This briefing note aims to help Transition Belper in making the most of the opportunities of Green Deal and ECO for the Belper community, ensuring that it both benefits and protects local households, particularly those who are fuel poor, on low incomes and vulnerable.

The key features of the Green Deal and ECO are set out in sections 2 and 3 respectively.

Section 4 looks at how they will interact with one another and with other initiatives.

Sections 5 and 6 focus on the protection and support provided for consumers within the schemes and at the specific issues relating to fuel poor households.

The Green Deal and ECO will be introduced later in 2012. Section 7 looks at the timescale and the planning that is (or should be) taking place.

The final section, section 8, draws out the key issues for the Transition Towns movement, Transition Belper and its planned network of Energy Expert Neighbours.

It is important to note that certain details of the Green Deal and ECO remain to be finalised, following the Government's Green Deal Consultation (December 2011-January 2012). This may require this briefing note to be updated. However, the main elements of the Green Deal and ECO have been clearly set out in the Government's proposals and in the Energy Act 2011.

2 The Green Deal – A Summary

The **Green Deal** is a new national programme for encouraging and funding energy efficiency improvements to homes. It is essentially a finance framework that will provide householders with the upfront capital to carry out energy efficiency improvements. The Green Deal will also be available to businesses, but this briefing is restricted to the proposals for homes.

The key concept is '**pay as you save**'. Low-cost finance will be available to householders from Green Deal Providers without any upfront payment being required. The measures will be paid for through a charge in instalments on household electricity bills, payable by the occupants of the property.

The key roles in the Green Deal process are those of:

- * The **Green Deal Provider**, which co-ordinates the process and provides the credit finance.
- * The **Green Deal Assessor**, who determines the most appropriate energy efficiency measures for the property.
- * The **Green Deal Installer**, which installs the energy efficiency measures.

A company or organisation can deliver any combination of these three roles.

The **Golden Rule** of the Green Deal is that ***the expected financial savings resulting from the energy efficiency measures must be equal to or greater than the costs attached to the energy bill.***

A useful way of looking at the Green Deal is the sequence of events experienced by the householder / customer:

- * 1 The customer and **Green Deal Provider or Assessor** make contact with one another. The Green Deal will be promoted widely by providers and Government. Trusted organisations such as local authorities, voluntary and community organisations could also promote the Green Deal locally. The customer will request a Green Deal assessment.
- * 2 An assessment (survey) of the customer's home will be carried out by an accredited **Green Deal Assessor** to establish which energy efficiency measures are appropriate to the home, the savings that they could generate, and whether they meet the **Golden Rule**. This survey is based on the current Energy Performance Certificate survey.

- * 3 From the results of this survey the customer has the option of continuing along the Green Deal route, or finding another way to pay for and install the measures. The customer is also free to contact one or more Providers to seek offers of finance. The Green Deal Provider will make a **financial offer** which sets out the proposed measures, the charge to be attached to the electricity bill, and the length of repayment period.
- * 4 Once the offer is agreed it becomes a Consumer Credit Agreement known as the **Green Deal Plan**. It is a contract between the Green Deal Provider and the customer. Landlord permission has to be obtained by tenants, the consent of the electricity bill payer is essential, and where relevant other **permissions** such as planning permission or listed building consent are obtained by the homeowner or landlord.
- * 5 The **Green Deal measures** are installed by an accredited **Green Deal Installer**, and the provider informs the electricity company.
- * 6 The repayments are collected via a separate Green Deal charge attached to the customers electricity bill or prepayment meter.
- * 7 If the customer moves home the remaining repayments are attached to the electricity bill of the new occupant of the property, as it is they who benefit from the investment.

All householders will be eligible for the Green Deal whether they live in public or private sector property, whether they are tenants or owner occupiers.

Landlords will be encouraged to use the Green Deal to improve their properties to a reasonable standard. They will be able to request a Green Deal Assessment, but they must get the consent of the current electricity bill payer (usually the tenant). By 2018 landlords will not be permitted to let the least energy efficient properties (EPC levels F&G). Between tenancies, the landlord will be responsible for paying the Green Deal charge.

Tenants will be able to initiate the Green Deal process and have their homes assessed. They have to get the permission of their landlord before measures are installed. Landlords will be required to honour reasonable requests for Green Deal energy efficiency improvements from their tenants.

Throughout the Green Deal process there will be advice and support available to the householder and they will be covered by consumer protection legislation and regulation – see section 5 for further details.

The boxes on the following pages explain each of the key aspects of the Green Deal process in more detail.

The Green Deal Assessor

- * Assessment can only be carried out by an authorised Green Deal Assessor who has met the Green Deal training and qualification requirements, and who is a registered member of an accredited certification body. A new national qualification for green Deal Assessors is being developed.
- * The Green Deal Assessor will look at the fabric and the occupancy of the property, explain the Green Deal, identify the projected savings (and how they may be affected by the occupants' behaviour) and explore which package of measures is appropriate for the household. For those familiar with current schemes the assessment will consist of an improved **Energy Performance Certificate (EPC)**, based on an improved **reduced data Standard Assessment Procedure (rdSAP)**. The survey report is called the **Green Deal Advice Report**
- * The Assessor may be employed by or sub-contracted to a Green Deal provider, may be independent, or may be employed by a local authority, not for profit organisation or social enterprise. Whatever their status, they will be required to act impartially when carrying out their assessment and providing recommendations, and make customers aware of any affiliation they may have with a Green Deal Provider.
- * The cost of the assessment is being left to the market. It is possible that some providers will offer assessments at no upfront cost to attract customers, and that some organisations may use separate funding to provide assessments at no cost.
- * The results will be provided to the customer, together with information about the Golden Rule, and the availability of further advice. The results will be placed on a register, which can be accessed by authorised Green Deal Providers.

The Green Deal Provider

Who can be a Green Deal Provider is being left up to the market. Providers may include large and small businesses, including for example local plumbers, DIY chains and large retailers. They could also be local authorities, social landlords, social enterprises and other not-for-profit organisations. It will be up to them whether Green Deal is offered as a standalone service or as part of a home improvement package, linked to, for example boiler replacements or kitchen upgrades.

There is likely to be more than one provider active in any area, with some operating nationwide.

The provider must be authorised and certified, must be licensed under the Consumer Credit Act, and comply with the Green Deal Code of Conduct.

In addition to providing the finance the provider will: arrange for measures to be installed; have arrangements in place with the electricity company that collects the repayment instalments; and be the ongoing first port of call for customer service enquiries.

Green Deal Finance – the financial offer and the Green Deal Plan

Finance for the Green Deal is provided by the Green Deal Provider, who in turn raises the finance from the financial markets.

The **financial offer** will set out the costs of the measures and the terms of the loan. This will include the details of the payment to be collected via the electricity bill, and the length of the repayment term. The costs payable will meet the Golden Rule (see below) and include:

- (i) the costs of the **Green Deal measures;**
- (ii) the **financing costs;**
- (iii) the Green Deal provider's **overheads.**

When the offer is agreed by the householder it becomes the **Green Deal Plan** for the property.

Note that:

(a) the customer will be free to meet all of the cost of the measures, themselves, either in cash or via another source of credit, and seek their own installers.

(b) the customer can meet part of the costs upfront, with the Green Deal repayments meeting the remainder.

(c) the loan can be paid off early at any time, although there may be conditions attached such as an early repayment fee.

(d) the Green Deal Plan may be part of a larger proposal for home improvements that includes measures outside the scope of the Green Deal, financed separately.

Because of the method of collection and the low risks attached, the **interest rate** on the loan is expected to be significantly lower than other sources of finance. For every 1% increase in the cost of finance, energy efficiency measures will have to reduce fuel bills by 7% to meet the Golden Rule. It is in the interests of all involved directly in the Green Deal that the rate is as low as possible.

Green Deal **repayments** will appear in the customer's electricity bill as an extra charge. For those with prepayment meters the charge will be collected via the meter. It will be treated as part of the bill – the customer can still switch supplier and change tariffs, and any debt **may** be treated in the same manner as a fuel debt.

The Golden Rule calculation and electricity bills

The **Golden Rule** of the Green Deal is that ***the expected financial savings resulting from the energy efficiency measures must be equal to or greater than the costs attached to the energy bill.***

The calculation of these costs includes not only the cost and installation of the **measures**, but the **financing** costs and **overheads**. The measures element of the costs includes **ancillary costs** such as preparatory works (for example scaffolding), returning the property to a reasonable state, unexpected costs (for example unexpected damp), and the cost of the Provider's insurance-backed warranty for the lifetime of the measures installed.

The calculation is based on average, **standardised occupancy and energy usage** in the home. If the household uses less energy than average the Green Deal charge could increase bills. This will be explored during the assessment and a longer term loan can be agreed. The calculation only applies to **Year 1** of the period of a Green Deal Plan though there will be limits on how much the charge can vary in future years.

All of these factors, plus changes in fuel costs, make it likely that households taking up the Green Deal will see an increase in their electricity bills during the loan period. However, the Golden Rule should ensure that the increase is less than it would otherwise be without a Green Deal.

Green Deal Installers

Green Deal installations must be carried out by an authorised Green Deal installer that is suitably trained, qualified, and certified. Installers will need to carry the Green Deal Quality Mark and comply with the Green Deal Code of Practice. The Green Deal installer standard is being developed by the British Standards institute, building on existing standards where appropriate.

The installer may be an independent firm, be sub-contracted to specific Providers, or be part of the same organisation as the Green Deal Provider.

Green Deal Measures

The energy efficiency measures that can be installed as part of the Green Deal include a wide range of insulation, renewable and traditional heating system improvements. The current list is as follows:

- Air source heat pumps
- Biomass boilers
- Biomass room heater (with radiators)
- Cavity wall insulation
- Cylinder thermostats
- Draught proofing
- Energy efficient glazing
- External wall insulation
- Fan-assisted replacement storage heaters
- Flue gas heat recovery devices
- Ground source heat pumps
- Heating controls (for wet central heating system and warm air system)
- High efficiency gas-fired condensing boilers
- High efficiency replacement warm-air units
- High thermal performance external doors
- Hot water cylinder insulation
- Internal wall insulation
- Lighting systems, fittings and controls
- Loft or rafter insulation and loft hatch insulation
- Mechanical ventilation with heat recovery
- Micro combined heat and power
- Micro wind generation
- Oil-fired condensing boilers
- Photovoltaics
- Roof insulation
- Room in roof insulation
- Solar water heating
- Under-floor heating
- Under-floor insulation
- Waste water heat recovery devices attached to showers

3 The Energy Company Obligation (ECO) – A summary

The Energy Company Obligation (ECO) will be the mechanism to assist those householders where the Green Deal is inappropriate or cannot meet the Golden Rule. ECO will oblige larger energy companies to fund improvements to the homes of eligible households via grants rather than a charge on electricity bills. It will replace existing obligations – the Carbon Emissions Reduction Target (CERT). ECO will be funded by a levy on all domestic energy bills.

ECO will apply to two main groups:

- * low income and vulnerable fuel poor households - the Affordable Warmth Obligation;
- * those living in hard-to-treat housing where the cost of measures cannot meet the Green Deal Golden Rule – the Carbon Saving Obligation.

ECO funding will be available not only from energy companies but through partnerships between them and local authorities, housing associations, Green Deal providers and other organisations.

(i) Low income and vulnerable households – the Affordable Warmth Obligation

The 'pay as you save' principle is not applicable to many fuel poor householders as they may be unable to make the required repayments, be unable or unwilling to take on debt and may need to take the benefits of energy efficiency improvements as increased warmth and comfort rather than reduced energy bills.

Key features:

- * it is proposed that 25% of ECO funding is directed towards the affordable warmth obligation
- * **eligibility** is restricted to those living in private sector housing – private sector tenants and owner-occupiers
- * eligibility will be restricted to those in receipt of certain benefits and tax credits. For details see the box below
- * it is proposed that any **measure** that improves the thermal performance of a property will be eligible
- * **identification** of those eligible and ensuring that they apply will be key (this is considered further in section 4)
- * the leads will be passed to the energy company who will, together with their partners, arrange with work to be carried out

- * a **minimum standard** of support under ECO will be agreed with the energy companies, likely to be an energy survey, followed by the offer of the installation of at least one free measure within an agreed time. Energy companies may, at their own discretion, be able to offer eligible households more than the minimum.

ECO Affordable Warmth Obligation – Eligibility

For those familiar with the Carbon Emissions Reduction Target (CERT) – the current obligation on energy companies, ECO eligibility is similar to the CERT Super Priority Group.

Eligibility is confined to **households living in private sector property** (private rented or owner occupied) where a person is **in receipt of:**

- * **Pension Credit**

- * **Child Tax Credit** earning under the 'free school meals' income threshold (currently £16190p.a)

Or:

- * In receipt of either **Income Support, Income Related Employment and Support Allowance** (where this includes a work related activity or support component), or **Income based Job Seeker's Allowance** with at least one of the following components:

- Parental responsibility for a child under the age of 5 living in the home
- Child Tax Credit which includes a disability or severe disability element
- A disabled child premium
- A disability premium, enhanced disability premium or severe disability premium
- A pension premium, higher pension premium or enhanced pensioner premium

(ii) households living in hard-to-treat properties – the Carbon Saving Obligation

The 'pay as you save' principle underpinning the Green Deal is not applicable to householders living in hard to treat properties as the necessary measures cannot meet the Golden Rule, and therefore cannot be fully funded through Green Deal Finance.

Key features:

- * it is proposed that 75% of ECO funding is directed towards the carbon saving obligation

- * households, who may be **eligible**, can apply for ECO funding. They will normally be formally identified via a **Green Deal Assessment** that identifies measures that cannot be funded via the Green Deal as the most appropriate. Tenants will have to seek the permission of their landlord.
- * The major measure will be **solid wall insulation** (which has to cover at least 50% of the walls where it can feasibly be installed), and any other measure will only be eligible as part of a package that includes this.

4 The Green Deal, ECO and other initiatives – how they interact

In general terms, able-to-pay households will be encouraged to access the Green Deal. Vulnerable and low income households, and those living in hard-to-treat homes will be eligible for ECO. A combination of both Green Deal and ECO is also possible. The key issues are:

- * how to ensure that households are steered in the right direction – Green Deal **or** ECO
- * how to ensure that, where both are combined, the consumer experience is seamless – Green Deal **and** ECO.

Green Deal or ECO

The Green Deal assessment should reveal in what direction the householder will be pointed and the **Green Deal assessor** will be trained and obliged to do this. As the householder may have to pay for the assessment, it is important that, wherever possible, eligibility for the ECO Affordable Warmth obligation is ascertained prior to an assessment.

The Government intends that the national **Green Deal advice service** (see section 5), which will be heavily promoted, will be the first port of call for most low income households, and they will establish eligibility for ECO. This will be backed by ECO scheme publicity by the energy companies

Where they exist, local trusted sources of information and advice, provided by local authorities, the existing network of advice agencies, voluntary and community organisations, referral networks and Energy Expert Neighbours, can play an important role in the **pre-assessment process**. ECO Affordable Warmth obligation publicity by energy companies and their partners will play a part, and assessors may be able to redirect ECO eligible households by asking a few questions when they telephone to make an appointment.

Green Deal and ECO

Where a proposed package of measures does not meet the Golden Rule and includes solid wall insulation it is likely that a combination of Green Deal Finance and ECO Carbon Saving Obligation support will be required. Green Deal Providers will have access to contributions towards solid wall insulation from suppliers looking to meet their ECO obligations via a 'brokerage' mechanism. The Green Deal provider will draw down funding and coordinate delivery. Customers will not have to apply to two separate schemes and should experience a seamless linking of Green Deal and ECO funding and delivery.

Green Deal, ECO and other initiatives

Other joint funding combinations could include Green Deal or ECO and together with funding from:

- * The Green Deal provider, through separate loans, as part of wider home improvement packages.
- * The householder's own funds upfront, either as cash or via traditional forms of credit.
- * Private or social landlords.
- * local energy efficiency schemes , funded for example by the local authority or the health service.

For the able-to-pay householder the ability to add Green Deal measures to a larger home renovation or improvement project could prove attractive and may stimulate the market for energy efficiency improvements.

Crucial to the success of jointly funded packages, as with current initiatives to coordinate comprehensive energy efficiency packages using diverse schemes, will be the ability to deliver a seamless service to the customer.

5 Consumer protection, advice, and support

Oversight of the Green Deal

The **Green Deal Code of Practice** (currently in draft form) sets out the criteria that assessors, installers, providers and products must adhere to in order to operate under the Green Deal banner. It will encompass training and qualifications, rules relating to marketing, warranties, queries, complaints and redress. The **Green Deal Quality Mark** will identify authorised assessors and installers. The Code of Practice and Quality Mark will be overseen by the **Green Deal oversight body** which is to be set up to monitor compliance. The oversight body will also manage the registers of authorised Green Deal providers, assessors and installers. It is proposed that ECO will be overseen by an **ECO Administrator** (which could be Ofgem - the energy markets regulator, or DECC - the Department of Energy and Climate Change).

Green Deal advice service

There will be a Government funded independent and impartial telephone and website based advice service staffed by trained advisors. The service will:

- * provide information and support to consumers
- * provide referrals to assessors, installers and providers
- * be an entry point for those eligible for support through ECO
- * assist consumers with advice and referrals if something goes wrong with the Green Deal process
- * advise on wider energy efficiency topics such as the Feed In Tariff and Renewable Heat Incentive.

It is proposed that all Green Deal publicity material will inform consumers about the advice service

Consumer Protection

Green Deal Consumers will be protected by existing legislation and regulation. The Government expects energy companies delivering ECO to provide consumer protection and redress to the same standard.

- * The range of existing **consumer law** will apply to Green Deal Providers – including the Sale of Goods Act, the Consumer Protection from Unfair Trading Regulations, and the Unfair Terms in Consumer Contracts Regulations.
- * Green Deal Assessors must act within **existing regulations** relating to doorstep selling, distance selling and pressure selling. (Cold calling and doorstep selling is allowed under the scheme, and may be a useful way of reaching customers)
- * Green Deal Providers will need to obtain a license under the **Consumer Credit Act** from the Office of Fair Trading. This covers issues such as mis-selling, cooling-off periods, the collection of instalments
- * The same regulation that applies to the **collection of energy bills** (including protections for vulnerable consumers), will apply to the Green Deal charge portion of the bill, and will be regulated by the energy regulator, Ofgem.
- * consumers will have access in case of unresolved disputes to the Energy and Financial Ombudsmen, and ultimately the courts.

6 Fuel Poverty, the Green Deal and ECO

Fuel poverty exists where a householder cannot heat their home comfortably at a price they can afford, and is usually defined as existing where more than 10% of household income is spent on energy costs. Despite energy efficiency improvements fuel poverty has been increasing in recent years as a result of increasing energy costs.

Traditionally grants and discounts have been available for eligible households through a combination of Government funded schemes such as Warm Front, obligations on energy companies such as CERT, plus locally funded projects and advice services. The introduction of Green Deal and ECO will remove any Treasury funding of energy efficiency improvements for the fuel poor, replacing it with a market-based financial mechanism, plus energy company funding paid for through a levy on the bills of all consumers. Local initiatives will remain in some areas and public sector landlords will continue to invest in the energy efficiency of their housing stock.

The intended route for the most vulnerable and lowest income fuel poor will be through ECO. However the eligibility restrictions mean that a significant proportion of the fuel poor may only be able to improve their homes through the 'pay as you save' principle of the Green Deal.

In addition the ECO-eligibility benefits may not be taken up by all those who are entitled to them. Unless these benefits are secured certain eligible households will not be able to access ECO funding. Pension Credit has one of the lowest take-up rates of any benefit or tax credit.

This raises significant issues for local authorities, voluntary and community organisations working with fuel poor households, providing information, advice and referral services. Many fuel poor households will be unfamiliar with the type of loan model proposed. Some will be unwilling, or unable to take out Green Deal loans. Others may be concerned that a Green Deal loan could affect their credit-worthiness, though the government suggests that this shouldn't happen because of the Golden Rule. Identifying which fuel poor households could benefit from the Green Deal, establishing whether it is appropriate for their circumstances, then convincing them that it is a good idea may be a difficult task. Ensuring that Green Deal providers, which may be nationwide, deal sensitively with fuel poor and vulnerable households may also be difficult to enforce.

7 The timescale and planning for the Green Deal and ECO

The legal framework for the Green Deal and ECO was included in the Energy Act 2011. A Government consultation on the Green Deal closed on 18 January 2012. The Government is now considering its response to the consultation, following which it will introduce the necessary secondary legislation and produce detailed guidance. The first Green Deals are expected to be available later in 2012.

Remaining details being developed by **Government** and its partners include the final Green Deal Code of Practice, details of the training and accreditation necessary for assessors, providers and installers, and setting up the oversight regime and advice service.

Potential **assessors and installers** are working out how and whether they will be involved, and the tasks they need to complete to secure accreditation.

Potential **Green Deal providers** are firming up their plans. They are known to include DIY chains, supermarkets, energy companies, energy efficiency companies, local authorities, local enterprise partnerships and social enterprises, both individually or in partnership or consortia with others. Discussions are taking place with potential providers of finance.

Local authorities are (or should be) considering how they will become involved in the Green Deal, as providers, partners or promoters, promote the Green Deal and ECO to local people, and make best use of Green Deal and ECO to benefit their area.

Local organisations including voluntary and community groups, existing information, advice and support services and referral networks to current schemes, are (or should be) considering their role within ECO and Green Deal, and how they need to adapt to provide the best service to their clients and customers.

8 Key Issues for the Transition Network, Transition Belper, and the Energy Expert Neighbours project

The Transition Network focuses on community-led responses to climate change and shrinking supplies of cheap energy. Therefore it would be supportive of anything which improves the energy efficiency of the housing stock, and creates more comfortable warm homes whilst reducing the cost of energy.

The key issue (as it is for all concerned with tackling fuel poverty, creating affordable warmth, and involving the community in improving energy efficiency) is how to maximise the benefits that could come with the Green Deal while minimising any risks to individuals and families as a result of the move from a grant-based to a loan-based system.

The Green Deal will be the only option for many households, both those who are able-to-pay and the fuel poor. It presents a significant change from previous schemes, particularly for the fuel poor, and this leads to the need to raise awareness about the scheme. How this can be achieved, what works and what does not, has to be ascertained, and the answer may vary from community to community.

Knowledge of the main details of the green Deal needs to be clear, if those working with fuel poor households are to know which households should be encouraged or advised to take up the Green Deal offer, and which should not. This also implies good knowledge of the alternatives – ECO, any local schemes that may exist, and the intentions of the local authority and other social housing landlords. Accurate pre-assessment and referral is essential.

The national Green Deal advice service will be of help but, to provide high quality local support, links need to be made with local advice services (particularly energy, money, benefits and debt advice) and referral networks. They need to know about Green Deal and ECO and build up relationships with assessors, providers and installers.

Green Deal providers, assessors and installers may be national, regional or local, and a variety of each will be available to the customer. Knowledge will have to be built up about the range of providers in the area, how they compare and differ. For example some may charge for assessments, others may not. The interest rates offered by providers may vary – a 1% difference is significant over the lifetime of a loan.

The Transition Network, together with partners such as the local authority and Local Enterprise Partnership, may wish to encourage the maximum involvement and use of local Green Deal providers, assessors and installers. This has the potential to maximise local economic benefits, create jobs and minimise energy use linked to transport. They may wish to work with them to promote best practice within the Green Deal and ECO, to offer and deliver the highest standards of customer care, good aftercare service, and joint working to deliver a seamless service to local customers.

A good knowledge of the local housing stock will help to establish, which types of homes are likely to meet the Golden Rule when assessed, and those which may need to access ECO Carbon Saving Obligation funding.

Expert neighbours, and other trusted local people, will be crucial. They have to be sensitive to individual needs, know when to recommend Green Deal and ECO, and when it may be inappropriate, and how to access guidance and support.