

Green Deal and Energy Company Obligation Consultation Response

Ecology Building Society

January 2012

Introduction

1. With one of the most inefficient building stocks in the world and over 4 million households in fuel poverty, the scale of the challenge of retrofitting our nation's housing should not be underestimated.
2. Our core interest in the Green Deal is whether it will be successful in addressing this challenge. Ecology Building Society's mission is to build a greener society by addressing the environmental impact of our housing stock, and we achieve this through our unique lending programme and by acting as a catalyst for change within the housing sector.
3. We are not intending to become a Green Deal provider, as explained in paragraph 16. Our response to the consultation is as a critical friend – we wish to see the Green Deal succeed, but we are concerned about a number of elements of the proposals. These elements are explored thematically in our response.

Assessment

4. The proposals outline different levels of integration between Green Deal assessors, installers and providers. Where the Green Deal assessor is an employee or subcontractor of a Green Deal provider, it is vital that the assessor is trusted and seen as impartial.
5. As a minimum, the impartiality and certification of assessors should be proactively communicated by an independent source. In our view, cold calling and doorstep selling Green Deal assessments would undermine trust in the impartiality of the assessors. DECC's own research findings¹ in this area should not be dismissed lightly.
6. We fully support the inclusion of advice on the effect of behaviour on energy bills. Given the importance of this factor and the well-evidenced risk of the 'rebound effect', we would suggest that this advice is reinforced on energy bills and Green Deal statements throughout the lifetime of the Deal, to ensure the Golden Rule is maintained and to maximise carbon savings.
7. The Consultation Document gives limited information on how the assessment recommendations will be presented to the Green Deal customer, but we believe the presentation of this information will be a key determinant of take-up. Information that is easy to understand, impartial and states clearly the relative benefits of different packages of measures (rather than piecemeal installations) is essential.

¹ Green Deal and Energy Company Obligation Consultation Document, p.188

Efficacy of measures

8. We support the Green Deal's ambition of encouraging the installation of a package of measures rather than piecemeal improvements, but we are not convinced that the programme will achieve this.
9. Research shows that consumers are likely to prefer shorter loan periods, preferably up to 5 years², meaning that take-up is likely to focus on selective measures at the expense of undertaking more significant and widespread retrofit measures in the future. This will be compounded by the Golden Rule and the desire of Green Deal providers to see a return on their investment.
10. We are concerned that the standardisation of consumption data for the Golden Rule means that energy bills for low energy users could increase if the full Green Deal charge allowable is added to their bill. We would expect that early adopters of the Green Deal would include those who are already trying to conserve energy at home, and this could result in negative perceptions and resultant low take-up of the Green Deal.
11. We are also disappointed that little consideration seems to have been given to monitoring the effectiveness of Green Deal measures after installation. Should the Green Deal achieve widespread take-up, this will be a vital opportunity to further develop our understanding of both energy efficiency technology and people's behaviour in response to the installation of these measures.

Green Deal providers

12. We are concerned that the current proposals will result in the Green Deal provider market being dominated by large organisations, with negative implications for the diversity of the industry and ultimate impact.
13. The Consultation Document acknowledges that the variable interest option, tied to the fuel and light index, is likely to be unattractive both to finance providers and consumers³. The only alternative is a fixed interest rate deal, which immediately restricts the finance market to those providers who are large enough to raise significant tranches of funds in the bond markets. As first point of call for customer service, Green Deal providers will also need to have sufficient capacity to handle a wide range of enquiries, often relating to third parties (e.g. assessors, installers, energy companies). Again, this points towards larger institutions rather than smaller providers.
14. We are concerned that these factors will also drive up the cost of providing Green Deal finance. Interest rates will also be affected by the additional risk inherent in providers' responsibility for guaranteeing the efficacy of measures installed, where in many cases these will have been recommended, supplied and installed by a third party.
15. Our extensive experience of lending on energy efficient properties gives us high confidence in the ability of a range of measures to make a substantial difference to both energy consumption and comfort. Nevertheless, responsibility for third party products and services is an element of risk which has to be reflected in a Green Deal provider's interest rates. This, combined with the

² <http://www.energysavingtrust.org.uk/Publications2/Corporate/Research-and-insights/Trigger-points-a-convenient-truth>

³ Green Deal and Energy Company Obligation Consultation Document., p.116

complexity of the Green Deal framework, also suggests that few institutions will be able to offer Green Deal finance at a rate which is attractive to consumers.

16. At this stage, we are not intending to become a Green Deal provider. Ecology Building Society has a 30 year record of leading the way in finance for sustainable building and home improvements, and has recently launched a mortgage discount to reward homeowners for improving the energy efficiency of their properties⁴. This discount focuses on the outcomes of the measures (currently measured by a change in the property's EPC rating) and therefore encourages an overall package of measures rather than a piecemeal approach to retrofit. The rates we are able to offer on our mortgages⁵, combined with our C-Change Retrofit discount, are lower than the anticipated Green Deal interest rate of around 6%. The energy saving impacts of these retrofits increases affordability of the overall borrowing.
17. While Ecology is unique among lenders for its focus on the environmental impact of properties, we would like to see the environmental credentials of Green Deal providers and other participants similarly considered. The draft Green Deal Code of Practice, however, currently makes no mention of the providers' own commitment to energy efficiency or carbon emissions. This would provide an extra layer of assurance that commitment to the wider objectives of the Green Deal would be evident in the business practices and customer service offered by Green Deal participant companies.
18. Further consideration needs to be given to the implications of the Green Deal for mortgage borrowers. While the Green Deal places a charge on the energy bill rather than the property, we anticipate that mainstream mortgage lenders will still see this as a readily identifiable cost burden with similar characteristics to a charge, and will therefore be less inclined to lend on Green Deal properties. We would recommend that DECC enters further discussions with mortgage providers as soon as possible to clarify this matter.
19. The Consultation Document proposes that appropriate consent for a Green Deal installation must be obtained and demonstrated to the Green Deal provider before finance is arranged. Mortgage lenders will also require evidence of this consent, since without the correct consent, the original or subsequent bill payer may be required to remove the measures and restore the property to its previous condition. Consumers should be made aware of this obligation to notify their mortgage lender as part of the Green Deal process.

Consumer take-up

20. Ultimately, the Green Deal will only work if there is demand as well as supply. The scale and ambition of the Green Deal provision framework leads to an understandable degree of complexity, but this is not accompanied by a framework for an integrated customer journey. For widespread take up, the process needs to feel seamless, trusted and beneficial.
21. The complexity and risk⁶ inherent in the Green Deal needs careful communication, yet there is no overarching plan for drawing the various elements and subtleties of the Green Deal into a coherent communications package. While it is understandable that the proposals at this stage focus on the industry perspective, consumer motivations and communication must not be bolted on – they need to be an integral part of the proposal. Communications should

⁴ C-Change Retrofit mortgage discount – see <http://www.ecology.co.uk/mortgages/c-change-retrofit/>

⁵ Our Standard Variable Rate is currently 4.90% (the overall cost for comparison is 5.1% APR) – see <http://www.ecology.co.uk/mortgages/interest-rates-and-charges/>

⁶ There will be no guarantee that the Green Deal charge will be fully offset by the savings, increasing perceived risk (Green Deal and Energy Company Obligation Consultation Document, p.107).

emphasise the positive role that a Green Deal package will play in sustainability, long term energy security and comfort levels in the home.

22. While DECC's research shows that "*people are unable to act because they cannot afford the upfront costs or they are unsure whether they can trust the quality of work*"⁷, our experience suggests that people also simply don't know what measures they should take or do not perceive the cost and hassle⁸ as being *worth* the benefits. If the customer journey is to "*make it easier for customers to make confident decisions about upgrading their homes and offices*"⁹, we need a clear plan for how this will be achieved.
23. Insufficient consideration has been given to the impact on consumer confidence of the consent issues involved in buying and selling a Green Deal property. In buying a Green Deal property, a consumer inherits a credit agreement agreed by the previous owner, with significant penalties for early repayment and restrictions on change of use. In a fragile housing market, unless there is widespread understanding of the Green Deal's benefits, homeowners intending to sell their property within the short to medium term may see this as impacting negatively on the marketability of their property.
24. We are, however, pleased to see an acknowledgement of the role of property professionals in increasing public knowledge and acceptability of energy efficiency measures. Their role in judging value and advising both buyers and sellers of property gives them a high level of influence over how positively energy efficiency measures are perceived. We also fully support the proposal to require estate agents to attach the front page of the Energy Performance Certificate to a property's particulars.

Fuel poverty and ECO

25. Unless ECO is reconsidered, we are concerned that it will not have the desired impact on fuel poverty. As ECO funds are raised through fuel bills, those who use less units (including those who are forced to underheat) will pay more per unit towards the Green Deal than those who use more units. Moreover, those who underheat are less likely to benefit from the Green Deal, since the assessment is based on standard consumption data. The potential end result is higher bills for those in fuel poverty, with no obvious benefit.
26. While the Affordable Warmth element of ECO seeks to address this issue in part, it also largely delegates the targeting of this support to the market (energy companies). Given that the Consultation Document recognises that the energy companies have exploited loopholes in CERT¹⁰, we question the wisdom of this decision. The targeting of the Affordable Warmth scheme is a significant public policy issue – households on the lowest incomes will require a greater level of ECO subsidy, the cost of which is disproportionately borne by those in fuel poverty – and this should not be left to market forces alone.
27. We would strongly recommend that more money is spent on reducing people's need for fuel (and, by extension, their carbon consumption) rather than subsidising the fuel they need to use in poorly insulated homes. We are therefore disappointed to see a reduction in the total sum available for ECO (compared to CERT), the proportion which is allocated to those in fuel poverty, and the measures for which ECO can be used.

⁷ Op. cit., p.10

⁸ The Consultation Document is clear that 'hassle cost' will not be included in Green Deal finance (p.117) – so it must be addressed as part of a wider communications strategy.

⁹ Op. cit., p.13

¹⁰ Op. cit., p.197

28. We recognise that the solid wall insulation industry needs to grow in order to reduce the costs of technology and increase its social and aesthetic acceptability. However, we do not feel this should be at the expense of the cavity wall and loft insulation industry. The reduction in installations predicted by DECC's own figures¹¹ is extremely concerning from the perspective of reducing the overall carbon footprint of our housing stock. We would like to see a planned transition between the two schemes, in order to protect the existing loft and cavity wall insulation market.

¹¹ <http://www.guardian.co.uk/environment/2012/jan/13/green-deal-setback-lofts-lagged>

About Ecology Building Society

Ecology Building Society is dedicated to building a greener society by supporting ecological building and sustainable communities. We do this through:

- Sustainable mortgages – lending on projects and properties that support the environment, including renovations, conversions, new builds and energy efficiency improvements
- Affordable housing – supporting shared ownership, Community Land Trusts and housing cooperatives
- Ethical saving – simple, transparent, fair accounts that offer the benefit of knowing where your money goes
- Mutual values – we are owned by our members and driven by our mission to build a sustainable future.

Ecology lends throughout the UK on properties and projects that respect the environment. We are particularly interested to see derelict and dilapidated property brought back into use, and energy efficiency measures fitted into existing homes. Our range of C-Change mortgage discounts reward energy efficient properties and sustainable home improvements.

Mortgage products include:

- Residential, buy-to-let and shared ownership mortgages
- Mortgages for housing associations and housing co-operatives
- Commercial mortgages to support environmental and ethical businesses and charities.

All of the money that the Society lends comes from our members' savings. We offer a range of straightforward accounts and pride ourselves on our individual, friendly customer service and long-term value for all savers.

Savings products include:

- Foundations Cash ISA
- Eco-60 tiered interest notice account
- Earthsaver Bond (with a donation to international development charity Practical Action)
- Foundations Deposit account for charities and incorporated bodies.

We practice what we preach in terms of our own financial and environmental operations. Our head office was designed to an airtight structure, high levels of insulation and low energy requirements, and we have offset the carbon emissions our operations have generated since 1981. The salary of the highest paid member of staff never exceeds five times the salary of the lowest paid full-time member of staff.

Contact

Anna Laycock
Marketing, PR and Research Officer

01535 650 773
alaycock@ecology.co.uk

www.ecology.co.uk