



Grant Thornton

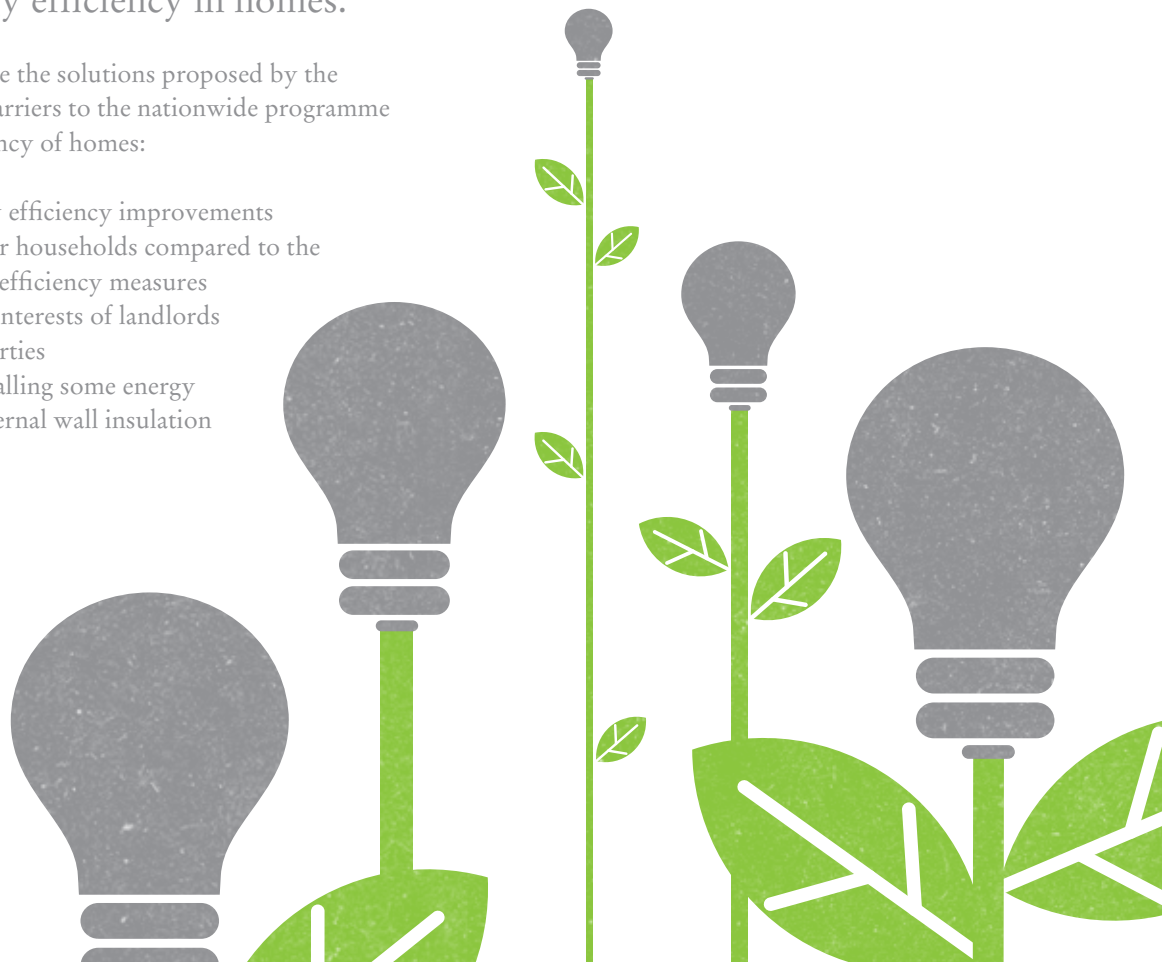
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Green Deal so far

The Green Deal and Energy Company Obligation (ECO) have been created by the UK government to address the need to reduce carbon emissions and limit the increase in energy costs by improving energy efficiency in homes.

The Green Deal and ECO are the solutions proposed by the government to address the barriers to the nationwide programme to upgrade the energy efficiency of homes:

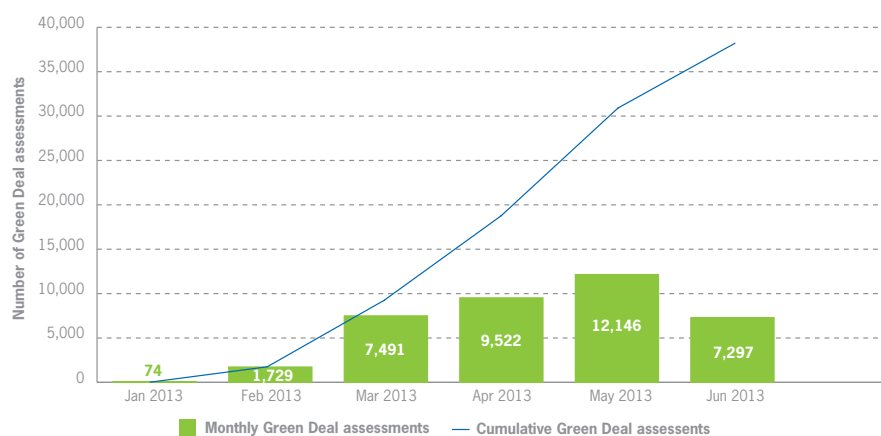
- Lack of finance for energy efficiency improvements
- Short stay in properties for households compared to the longer asset life of energy efficiency measures
- The lack of alignment of interests of landlords and tenants in retail properties
- The inconvenience of installing some energy efficiency measures, ie internal wall insulation



Green Deal and ECO so far

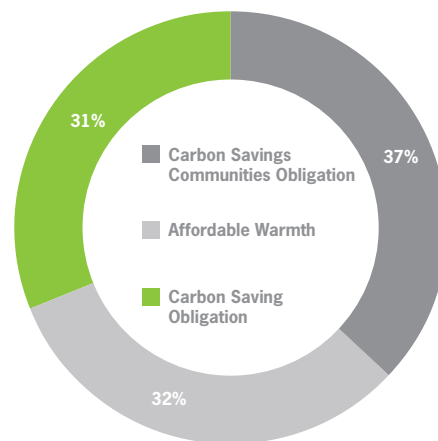
Since the launch of the Green Deal on 28 January 2013 in England and 25 February 2013 in Scotland, 38,259 Green Deal assessments have been carried out according to the Department of Energy and Climate Change (DECC). The detailed uptake in Green Deal assessments is detailed in Figure 1.

Figure 1: Overview of the Green Deal assessments since 28 January 2013¹



Important note: Green Deal assessments have been included in this table up to 16 June 2013

Figure 2: Breakdown of the type of ECO used since 1 January 2013²



The statistics published by DECC show that 9,294 Green Deal assessments were carried out in the first quarter (January to March 2013) in England and Wales. From all these assessments, 41% recommended four or more measures with the most common measure being boiler replacements in 56% of the cases. Since March 2013 there were 28,965 Green Deal assessments which is three times more than in the first quarter.

Despite the high uptake of assessments, households seem reluctant to sign up for a Green Deal plan as only two customers had signed a Green Deal plan as at 16 June 2013. Many measures have been installed (mostly boiler replacement) with a time limited cash back scheme. The main reasons for this lack of uptake are:

- **High cost of finance:** interest rates offered by the Green Deal Finance Company are 7% to 8%, which is higher than other available funding
- **Inconvenience of some of the work**
- **Lack of knowledge and understanding of the scheme:** households are therefore less inclined to sign up for the Green Deal as the process is often not clear or trusted
- **Limited marketing by the government and trusted brands**

Since the launch of ECO on 1 January 2013, it has shown a strong uptake with over 81,000 measures installed, broken down between the three different types of ECO as shown in Figure 2.

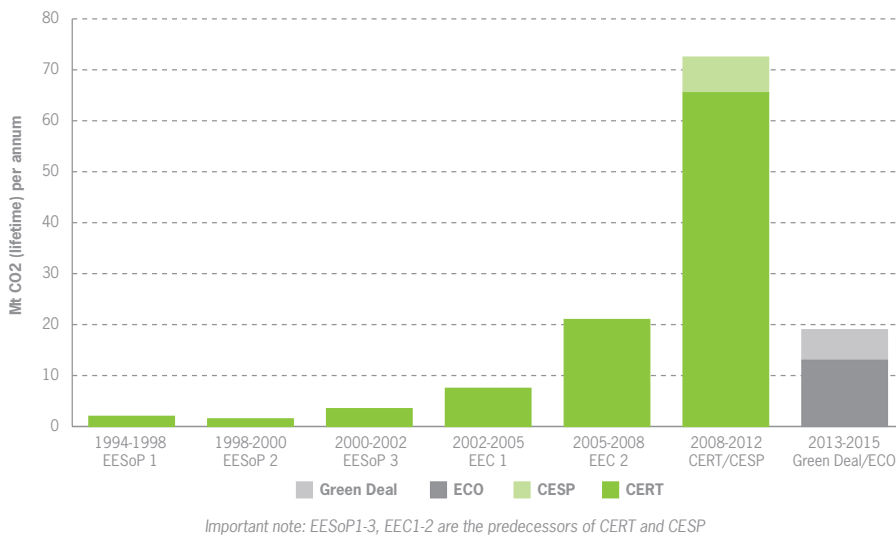
^{1,2} Source: Domestic Green Deal and Energy Company Obligation in Great Britain, Monthly Report, DECC, 27 June 2013



Despite the stronger uptake of ECO compared to the Green Deal, the scale of ECO is limited as it is financed through energy charges paid by consumers and so the government cannot increase the ECO target without further increasing energy prices. Considering the limited expenditure for ECO (circa £1.3 billion per year), Local Authorities are likely to compete to benefit from this scheme as energy companies are free to determine the geographic allocation of ECO.

Comparing these energy efficiency programmes against the previous set of schemes available to promote energy efficiency (CERT and CESP), it is forecast that Green Deal and ECO will achieve about 26% of the supplier obligation effort achieved through CERT and CESP as detailed in Figure 3. Furthermore, ECO is forecast to capture the largest share of carbon emission saved through energy efficiency measures.

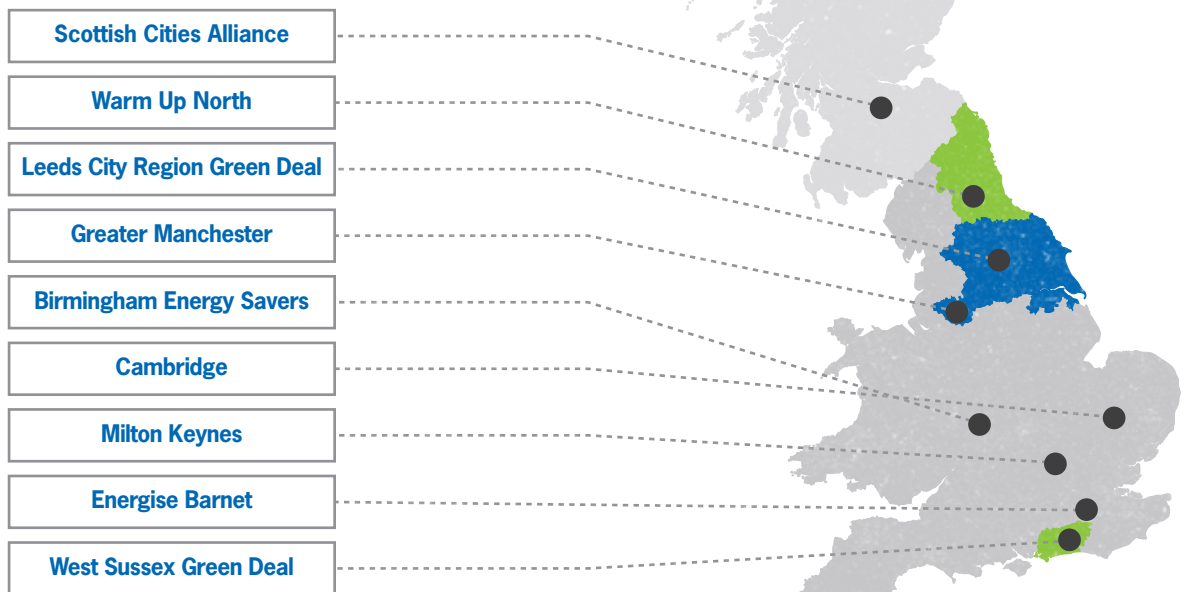
Figure 3: Energy efficiency programmes³



Delivery of Green Deal and ECO

The Green Deal and ECO measures have been delivered in part by Local Authorities, Social Landlords and Community Interest Companies developing local Green Deal schemes across the country (see Figure 4).

Figure 4: Overview of selected Green Deal programmes in Great Britain



The bodies provide a trusted brand to support the Green Deal.

³ Source: The Green Deal and the Energy Company Obligation – will it work?, Jan Rosenow and Nick Eyre, 2012. Link: http://eng.janrosenow.com/uploads/4/7/1/2/4712328/rosenow-eyre-2012-the-green-deal-and-the-energy-company-obligation_.pdf
⁴ An investigation of the effect of EPC ratings on house prices, DECC, 17 June 2013

Potential ways forward

A major increase in uptake of the Green Deal scheme over the next couple of months is required if it is to get on track. Key areas where actions could make a difference include:

- simplified, cheaper and quicker Green Deal processes
- improving public perception and understanding by, for instance, emphasising the fact that property prices are likely to increase with a high level of energy efficiency (prices are up to 14% higher for an energy efficient property compared to a less energy efficient one⁴)
- other financial incentives such as:
 - equal VAT treatment for Green Deal measures (vatable at 20%) and energy supplies (vatable at 5%)
 - council tax and/or stamp duty reduction for Green Deal properties
 - cash back schemes
- the Government advertising and publicising the Green Deal supported by trusted retail brands
- more affordable financing by encouraging alternative sources of finance (ie property-based lending, Prudential Borrowing for Local Authorities, Social Landlord contributions, social lenders)
- the government intervening to lower the GDFC's interest rate.

Who should I contact?

Grant Thornton's Energy, Environment & Sustainability team is active in advising public and private sector clients to deliver the Green Deal and ECO across the UK. If you would like to discuss the Green Deal or to find out how this framework could represent an opportunity for you, please get in touch with one of our experts:



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