European
Construction Sector
Observatory

Policy measure fact sheet

United Kingdom

Green Deal Home Improvement Fund

Thematic Objective 3

September 2015

Implementing body:	**Department of Energy & Climate Change**
Key features & Objectives:	A voucher scheme aimed at accelerating the uptake of energy efficient measures by households
Implementation date:	June 2014 – September 2015
Targeted beneficiaries:	Households (homeowners and tenants) & construction sector companies providing / installing energy efficiency improvements
Targeted sub-sectors:	Energy Service Sector Heating and insulation providers
Budget (EUR):	EUR 259 million (GBP 220 million)

In a nutshell

The UK has some of the oldest building stock in Europe[1]. Poor insulation in homes and buildings is a major factor in energy waste, and energy consumers are paying a high price for inefficient housing. Indeed, energy used to heat houses accounts for a quarter of the UK's carbon emissions and the figures are similar for businesses. The Government is committed to reducing energy waste and to putting in place a coherent programme of activities which not only provide immediate practical help for householders now, but establish the foundation for new ways of promoting and enabling home improvement in the future: to help ensure that energy is affordable, to support security of supply, and to meet the UK's statutory targets to reduce harmful carbon emissions.

The UK Government launched the Green Deal Home Improvement Fund (GDHIF) in June 2014 as a financial incentive scheme to encourage homeowners in England and Wales to make energy saving home improvements and to assist them with the cost of installation. The GDHIF has proved so popular that additional schemes and funding have been needed, pushing the original funding pot of up to EUR 141 million (GBP 120 million) for release 1 of the scheme in June 2014 to up to EUR 177 million (GBP 150 million) by release 2 in December 2014 and finally up to a total of EUR 259 million (GBP 220 million) by release 3 in March 2015. Funding for each release was fully allocated to applicants in a matter of weeks or days of the scheme opening for applications.

The GDHIF represents a shift in focus when compared to previous energy efficiency schemes in the UK over the last two decades. The focus of previous schemes has been to require gas and electricity suppliers to achieve targets for reducing carbon emissions in domestic properties and to be the drivers of energy efficiency measures and improvements in domestic properties. By contrast, the focus of the GDHIF is to enable homeowners to be the drivers of energy efficiency improvements in their own home.

Even though the GDHIF has clearly been popular with homeowners, demand for other Green Deal schemes has been disappointing. This has been a factor in the UK Government's recent decision to end all further funding to any other Green Deal schemes.

All stakeholders agree that Government-led energy efficiency policies and initiatives are essential if the UK is to meet its carbon emission targets. Where stakeholder opinions differ most notably is in how such measures are designed and implemented. The key message from stakeholders is that Government should develop a longer-term vision and set of measures that are practical, clearly defined, scalable, open and inclusive, and that provide opportunities and benefits to all households, homeowners, tenants, buildings and businesses.

General description

In December 2013, the UK Government announced a EUR 636 million (GBP 540 million) three-year energy efficiency package, from which up to EUR 259 million (GBP 220 million) has been made available to the Green Deal Home Improvement Fund. The GDHIF issues vouchers to homeowners or tenants to assist them with the cost of installing home improvement measures. Measures must be eligible and pre-approved by the scheme and installation must be done by approved Green Deal providers and installers. Energy efficiency assessments and advice are also provided by the GDHIF. The scheme is designed to work alongside other energy efficiency financing options:

- The Green Deal helps businesses and homeowners to install new green technology into their properties with no up front costs. The costs are instead repaid over a period of time through a property's energy bill;
- The Green Deal Communities Scheme provides funding to local authorities and their partners to deliver Green Deal plans to as many households as possible at a local community level;
- The Energy Company Obligation (ECO) is a government scheme that obligates larger suppliers to deliver energy efficiency measures to domestic premises in Britain.

Though these other financing options may also help to fund energy efficiency installation costs, households are not permitted to combine GDHIF funds with funding from other Green Deal schemes for the same installation.

Rolled out in three releases, the GDHIF scheme has provided participating households with vouchers of up to EUR 8,949 (GBP 7,600) in release 1 and up to EUR 6,594 (GBP 5,600) in releases 2 and 3 to put towards energy saving home improvements such as solid wall insulation and double-glazing. Applicants must choose one or both of the core offers, and can then choose one or both of the add-on offers.

	Max. voucher value	Conditions of each offer
Core offer 1	EUR 1,177 (GBP 1,000)	Installation of at least two eligible energy saving upgrades[2]
Core offer 2	EUR 4,710 (GBP 4,000)	Installation of internal or external solid wall insulation
Offer 3 (add-on)	EUR 589 (GBP 500)	Applicant must apply within 12 months of buying a home
Offer 4 (add-on)	EUR 118 (GBP 100)	Green Deal Assessment Report (GDAR) conducted on property

To be eligible, an applicant must:

- Be improving a domestic property in England or Wales that he/she owns or lives in;
- Have either a Green Deal advice report or an Energy Performance Certificate (EPC) that is less than 2 years old;
- Be installing home improvements that are covered by the scheme and are recommended in the EPC or the Green Deal advice report; and
- Use a Green Deal provider or installer that is registered with the GDHIF.

Achieved results

The scheme has proven to be extremely popular, with the funding for each release being snapped up in a very short space of time.

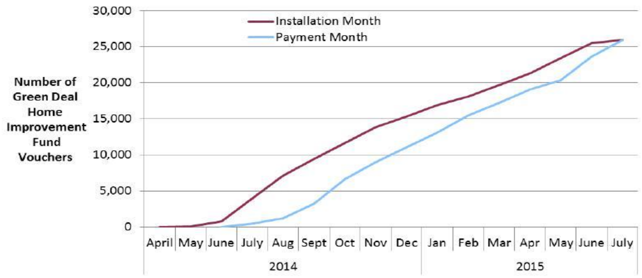
	Max. budget (millions)	Release dates	Applications received
Release 1	EUR 141 (GBP 120)	9 Jun–24 Jul 2014	21,683
Release 2	EUR 35 (GBP 30)	10-11 Dec 2014	6,000[3]
Release 3	EUR 82 (GBP 70)	16-26 Mar 2015	18,480

By the end of July 2015, there were 38,484 active applications (releases 1, 2 and 3), with a total budget committed of around EUR 198 million (GBP 168 million), of which around EUR 54 million (GBP 46 million) were still active applications that had yet to be redeemed.

	Active applications (at end of July 2015)	Fund allocation (millions)
Release 1	17,470	EUR 107 (GBP 91)
Release 2	3,960	EUR 18 (GBP 15)
Release 3	17,054	EUR 73 (GBP 62)

GDHIF active applications include any vouchers issued, pending, or vouchers which have been paid, under GDHIF release 1, 2 and 3 funding. It excludes any vouchers which have been cancelled, rejected, superseded, expired or where claims have failed. These exclusions are largely due to issues of non-compliance with the terms and conditions of the scheme, such as failure to submit the necessary paperwork. This explains why (at the end of July 2015) the total committed budget (EUR 198 million / GBP 168 million) is lower than the total available budget (of up to EUR 259 million / GBP 220 million).

Figure 1: Number of GDHIF vouchers



Source: DECC Monthly Statistical Release – August 2015

Figure 1 shows that the time period between work installation and the payment of vouchers has been steadily reducing since the GDHIF was launched in June 2014 by the Department for Energy & Climate Change (DECC). This is part of the DECC's commitment to processing payments and reimbursing customers as quickly as possible to support both customers and participating businesses, to increase administrative efficiency, and to continue to work to reduce that time period.

Measure types	GDHIF measures delivered
Boiler	**3,148**
Gas Boiler	3,148
Cavity Wall Insulation	**173**
Loft Insulation	**64**
Room in Roof Insulation	64
Other Heating	**2,765**
Electric Storage Heaters	2
Flue Gas Heat Recovery Devices	2,552
Warm Air Units	0
Waste Water Heat Recovery Systems	211
Other Insulation	**363**
Flat Roof Insulation	48
Passageway Walk-through Doors	190
Under Floor Insulation	125
Solid Wall Insulation	**23,005**
Window Glazing	**151**
Double/Triple Glazing	141
Secondary Glazing	10
Total number of measures	**29,669**

Source: DECC Monthly Statistical Release – August 2015

As illustrated in the table above, the measures that have been the most popular amongst applicants are the measures that are the most expensive to install and that provide a household with some of the highest energy efficiency gains.

On 23 July 2015, the Government announced that GDHIF release 3, which opened and closed in March 2015, would be reopened for applications until 30 September 2015 or earlier if the funds run out. The intention is to ensure that the total available budget of EUR 259 million (GBP 220 million) is fully allocated and paid out. The Government also announced[4] that there will be no further releases of the GDHIF and that funding will end for both the GDHIF and the Green Deal initiative which runs alongside it. The decision is taken in the context of the Government's wider review of energy policies and the need to make budgetary savings. The DECC has been tasked with cutting EUR 82 million (GBP 70 million) from this financial year, and the GDHIF and the Green Deal initiative are the first casualties[5]. The Government also explains the low take-up of the Green Deal initiative (not the GDHIF, which was oversubscribed), by high industry standards, and a need for schemes that are better value for money (to taxpayers).

Perspectives and lessons learned

A first of its kind, the GDHIF has proven to be a simpler and more effective incentive scheme than other more complex Green Deal financing options where uptake was disappointing (e.g. loans that are repaid through energy bills). As a policy lesson that is transferable to the rest of Europe, the GDHIF has demonstrated that simple grant or loan programmes can both motivate households to install energy efficiency measures and provide potential business opportunities. Greater simplicity, help with off-setting energy efficiency installation costs and the application of the Green Deal's Golden Rule[6] have each contributed to the high demand for this scheme amongst households.

An accreditation scheme and an official register of approved Green Deal providers and installers has also helped to open up the market for smaller businesses in the energy efficiency sector and provide potential business opportunities. Green Deal providers and installers are certified by a Certification Body as meeting the Publicly Available Specification (PAS) 2030 for the measures that they wish to install. PAS 2030 is published by the British Standards Institute (BSI).

From a **consumer (household) perspective,** the first lesson to be learned is that the long delays that consumers often face when trying to obtain an initial property assessment need to be reduced. Secondly, the scheme faced complaints from some consumers that assessors are recommending unsuitable energy saving measures. These views are expressed by the UK's largest consumer group "Which?" and they relate to all Green Deal schemes.

From a **government perspective**, the Green Deal initiative has failed to attract customers, to deliver the expected benefits and to drive the scale of energy saving home improvements needed to cut carbon emissions and insulate consumers from high energy bills[7] [8]. The high interest rates[9] (7.9-10.3% APR) for the Green Deal pay-as-you-save loan scheme have put off potential customers, according to the Energy & Climate Change Select Committee. Lower rates (below 7%) would help to attract customers. Another criticism is that this type of scheme is only appealing to a certain section of the population that is in a position to take out loans for home improvements. Broader incentives, by contrast, could encourage many more households to take simpler and cheaper steps to improve energy efficiency of their properties and cut their energy bills.

From a **specialised services perspective**, the key message is that the GDHIF and the Green Deal Initiative are both too short-term and are creating uncertainty in the industry[10]. The UK Green Building Council (UKGBC) argues that the Government should learn from this experience and focus on long-term drivers for energy efficiency. One example could be to link "stamp duty" (a UK tax on land and property transactions), to avoid this constant boom and bust. UKGBC argues that the Government should "link stamp duty payments to the energy performance of the property – incentivising householders to take action, and firmly establishing energy efficiency within the house buying and selling market"[11].

From an **industry perspective**, the first lesson, according to the National Federation of Builders (NFB), is that the engagement of specialised SMEs in the GDHIF process has been a key strength. Secondly, the GDHIF should allow the participation of non-accredited workers to make it more open, inclusive and effective – as is the case with a similar scheme operating in Australia (HIP Programme[12]). Profit margins for participating businesses should be increased to attract greater participation – margins are currently in the range of 15% and have to be split between the assessor and the installers/providers. The GDHIF should be a longer-term measure with greater investment. Assessments should indicate the logical order of works, e.g. where to start from. Also, applicants should not have to cover the costs of works themselves, before they can redeem their vouchers. Finally, homeowners should be able to select a company of their choice to carry out the works (e.g. on the basis of quality workmanship, satisfaction with previous work completed) instead of having sub-contractors assigned by the main assessor. Another industry perspective is put forward by the Federation of Master Builders (FMB). The FMB believes that investing in existing homes is the best way to drive up jobs and growth while driving down fuel poverty and carbon emissions. A key recommendation is that the Government should provide homeowners with zero interest loans to make their properties energy efficient. This type of measure works well in Germany (e.g. KfW), and could possibly be good for the UK.

Comparison with other analytical sources

The subject of this fact sheet and the stakeholder views expressed within it concur with the findings and views expressed in the UK Country Fact Sheet (section 7, TO 3 – Resource efficiency/Sustainable construction). All stakeholders would benefit from:

- Clearer planning on home improvement assessments and the order of improvement works;
- Freedom of consumers to choose their own installer;
- A long-term approach (vision, initiatives and funding).

Endnotes

1 Chris Huhne, Secretary of State for Energy and Climate Change: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/47978/1010-green-deal-summary-proposals.pdf

2 e.g. Condensing mains gas boiler, fan-assisted storage heaters, flue gas heat recovery, waste water heat recovery, cavity wall insulation, flat roof insulation, loft insulation, floor insulation, double/triple glazing.

3 Total dropped to 5,783 by 7th January 2015 due to cancellations and rejections.

4 http://gdorb.decc.gov.uk/news-a-events

5 http://www.greendealinstallerhub.co.uk/281,news,game_over_for_gdhif_and _green_deal_finance.html

6 The Green Deal's Golden Rule states that the energy savings a property makes in (at least) a 25 year period must be equal to or more than the cost of implementing the changes in the first place.

7 http://www.parliament.uk/business/committees/committees-a-z/commons-select/energy-and-climate-change-committee/news/green-deal-substantive/

8 http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenergy /348/348.pdf

9 Green Deal Providers provide loans to applicants using funds sourced from the Green Deal Finance Company (GDFC). Loan periods range from 10-25 years. The GDFC charges providers 6.9% APR interest on loans. Providers then charge applicants a higher interest rate. This rate varies from one provider to another, though the final rate is typically between 7.9% and 10.3% APR. According to NPOWER, one of the UK's leading energy companies, for the scheme to be truly effective, interest rates for applicants should be below 7%.

https://www.gov.uk/green-deal-energy-saving-measures/how-to-pay

http://www.which.co.uk/energy/creating-an-energy-saving-home/guides/the-green-deal-explained/green-deal-finance---paying-for-the-green-deal/

http://www.uswitch.com/green-deal/guides/green-deal-loan/

http://www.telegraph.co.uk/finance/personalfinance/9838241/Green-Deal-provider-Npower-warns-schemes-interest-rates-are-too-high.html

10 http://www.theguardian.com/environment/2014/dec/11/24m-green-deal- fund-exhausted-in-a-day

11 http://blueandgreentomorrow.com/2014/12/03/autumn-statement-failure-to-link-stamp-duty-to-energy-efficiency-missed-opportunity/

12 http://www.gemserv.com/wp-content/uploads/Gemserv-Thought-Leadership-Green-Deal.pdf