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Short communication

A post mortem of the Green Deal: Austerity, energy efficiency, and failure in British energy policy

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ABSTRACT

The Green Deal was a British flagship policy intended to deliver energy efficiency retrofits at scale. About 2.5 years after its launch the programme was effectively terminated and is now seen as a dramatic policy failure. In this paper we analyse the reasons for the failure and the politics that led to the rise and the fall of the Green Deal. We conclude that even though the risks were understood and voiced by critics well in advance of the launch of the Green Deal, the logic of a subsidy free energy efficiency scheme became the accepted wisdom at the highest levels of Government, through a combination of ideology and failure to listen.

1. Introduction

The Green Deal was created by the British Government as an innovative pay-as-you-save energy efficiency finance mechanism for the able-to-pay market to deliver retrofits at a large scale without the need for public subsidies in an age of austerity. It was supposed to become 'Europe's most innovative and transformational energy efficiency programme' [13]. In 2011, the Department for Energy and Climate Change (DECC) estimated that by 2020 the Green Deal would support the retrofit of 14 million homes i.e. almost 2 million homes per year [12].

The reality is that the Green Deal has failed dramatically to deliver even a small proportion of this. In fact, only about 6000 homes per year were retrofitted using Green Deal finance—a total of approximately 14,000 by the end of March 2016 since its launch in January 2013 [5]. Given the inability of the Green Deal to deliver retrofits to a large number of homes, the new Conservative government announced in July 2015 that it would no longer fund the Green Deal as it was not providing value for money. Even though the Green Deal mechanism is officially still alive, albeit without any government support, it is withering away with a rolling average of currently a few hundred retrofits per year. Taking stock of the impact of the Green Deal as part of an inquiry into home energy efficiency, the House of Commons' Energy and Climate Change Committee [21](p. 15) concluded that the 'Green Deal is widely regarded to have been a failure'. And the National Audit Office concluded that 'the Department's £240 million expenditure on the Green Deal has not generated additional energy savings [. . .]. The Green Deal has therefore not been value for money' [24](p12). In our view, the Green Deal is probably the biggest failure in the history of UK energy efficiency policy.

What went wrong? In this paper, we analyse both the reasons for the failure and the underlying politics that eventually led to the effective termination of the Green Deal.

2. Impact of the Green Deal on energy efficiency retrofits

Early assessments of the proposals predicted that the introduction of the Green Deal and the restructuring of the energy savings obligations would lead to a decline in energy savings of around 80% [28]. Whilst such projections are always uncertain, recent figures confirm that they were broadly correct. Energy efficiency improvements have drastically stalled since the introduction of the Green Deal and the Energy Company Obligation (ECO). Figures from the Climate Change Committee [4] and the Department of Energy and Climate Change [5] show a sharp drop in the number of energy efficiency measures installed in British homes. By mid-2015 the average delivery rate for loft insulation has dropped by 90%, cavity wall insulation was down by 62%, and solid wall insulation had declined by 57% compared to 2012 [32].

The failure of the Green Deal to achieve a 'revolution in British property' is also reflected in [6] recent official projections of

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additional energy savings from 2010 to 2020. The Green Deal is projected to deliver just 1% of the total energy savings in 2020, reflecting the current low take-up of the scheme. Compared to this, the Carbon Emissions Reduction Target – the policy in place prior to the Green Deal – is projected to deliver almost 25% of all savings in 2020 (ibid) [6].

3. Pitfalls of the Green Deal

The underlying pay-as-you-save concept of the Green Deal is a compelling one, particularly taking into account the rising levels of investment needed and therefore the need for new sources of capital. It also potentially helps to solve the landlord-tenant dilemma where the landlord bears the costs of making energy efficiency improvements, but the tenant reaps the benefits in terms of energy cost savings. The Green Deal received a lot of attention and generated interest across Europe with governments commissioning research on whether a Green Deal could also work in their respective countries.

However, the design chosen for the Green Deal was marred with problems. The myriad of pitfalls associated with the Green Deal have been thoroughly analysed in previous research [1,14,19,22,23,26,28,29], but there are three primary areas that we identify here, which the Green Deal did not adequately address: a) poor policy design, b) limited financial appeal, and c) narrow engagement with consumers.

3.1. Poor policy design

The Green Deal was intended to overcome the barriers of split incentives and high upfront costs by financing energy efficiency measures through loans that were tied to the building rather than the occupant and paid through installments on electricity bills. The implementation included a “Golden Rule” that required projected cost savings from the measures installed to exceed the loan repayments. Given the relatively high interest rates (see below), only investments with high rates of return were eligible for full funding. These measures (e.g. cavity wall insulation) were previously targeted by the supplier obligations—whose targets gave some confidence that particular levels of energy savings would be achieved. In contrast, the Green Deal did not require a specific level of delivery, with the result that the outcome was highly uncertain. More expensive measures, such as major refurbishments, that are arguably better suited to pay-as-you-save financing, were excluded.

3.2. Limited financial appeal

The interest rate of the Green Deal was not attractive and significantly above current mortgage rates and high street secured loans, which is a benchmark used by consumers when assessing the interest rate of such programmes. A low-interest mortgage or loan with interest rates of around 2–3% is an attractive proposition for investment in energy efficiency. Such a measure is likely to require government guarantee of the loans and/or subsidies to a financial organisation offering the loans. This approach has proved successful in Germany [30], but was not used in the Green Deal, because of the Government’s policy of avoiding any public subsidy.

3.3. Narrow engagement with consumers

To effectively engage consumers in improving the energy efficiency of their homes, we need to focus on what consumers actually want. Instead of a universal, top-down, marketing approach [11], own survey evidence shows that a multitude of factors motivate people to improve the energy efficiency of their home. The proposition espoused by the Green Deal, solely based on financial savings, failed to take into account this broader narrative. Whilst financial aspects are important (and there are financial barriers to energy efficiency), the Green Deal ignored the much greater aspirations that people have for themselves in their home: comfort, well-being and health. When the state of Oregon tested different messages when marketing their energy efficiency programmes, they found that comfort was the most effective messaging [31]. A comprehensive study from the US also stresses that focusing on issues such as comfort and health greatly enhances the attractiveness of energy efficiency from the consumers’ perspective [15]. The emerging evidence on why consumers decide to retrofit in the UK supports this wider narrative of home improvement, comfort and wellbeing [34]. Hence the Green Deal lacked real and effective engagement with the people it was supposed to offer a proposition to improve their homes. To use an analogy, people were sold the loan instead of the car.

In addition, Green Deal scams have been widely reported on and recorded by Citizens Advice [3], a consumer advice charity. Households were being contacted through unsolicited telephone calls or by door-knocking. Victims of the scam typically agreed to pay a fee for a Green Deal assessment and provided their bank details expecting an assessment that never took place. Where assessments were carried out, the bogus companies never carried out the installation work.

4. The rise and the fall of the Green Deal

4.1. Initial optimism

All of the issues set out above were known in advance. The vast majority of people familiar with energy efficiency policy design were always very skeptical about the Green Deal. Despite criticism prior to the launch of the Green Deal, initially there were very optimistic statements from Government Ministers and officials. When the Green Deal was launched in January 2013 after a delay of several months Energy and Climate Change Minister Greg Barker announced that the Green Deal would ‘transform the energy efficiency market’, although the projections for Green Deal take-up in the Government’s own impact analysis never justified this claim [28].

4.2. Sustained defense

After a slow start for the Green Deal and critical media coverage Greg Barker said in March 2013 that he would not be able to sleep if less than 10,000 homes were retrofitted by the end of 2013. In reality, in 2013 only 626 home retrofits through the Green Deal were completed [8], just over 5% of the anticipated figure.

Still, the Government consistently argued that even though the number of Green Deal-funded retrofits was lower than expected, research by GfK NOP [16] showed that more than 80% of households who had a Green Deal assessment went on to install energy efficiency measures, including by using their own funds. This was seen as ‘a powerful endorsement of the Green Deal’ [10].

However, a later phase of the same research showed that the majority of those who received loft (76%), cavity wall (81%) or solid wall insulation (87%) received ECO funding [17]. Hence ECO, an Energy Efficiency Obligation, was the driving force rather than the Green Deal.

4.3. Admitting policy failure

Less than one year on from his 2013 claim, Greg Barker had to admit that his prediction had been ‘spectacularly wrong’ [27]. The