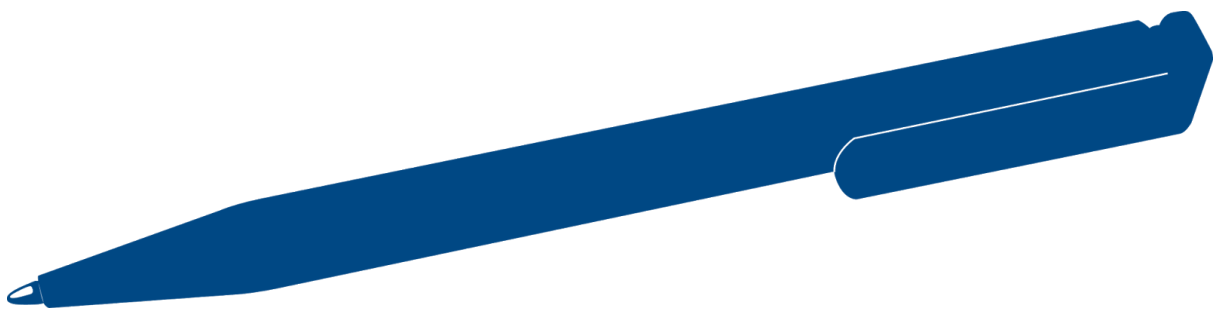


Green Deal Framework

Citizens Advice response to BEIS Call for evidence, November 2017



Contents

About Citizens Advice	2
Introduction and summary	2
Consultation questions	3-11

About Citizens Advice

Citizens Advice is major provider of advice and support to people having trouble with their energy. In 2016/17, we provided energy advice to 70,000 clients face-to-face through the local Citizens Advice network, and 28,000 callers through our Consumer Service telephone. Our Energy Best Deal programme provided 13,000 consumers with detailed advice on switching, energy efficiency, tackling fuel poverty and fuel debt.

Citizens Advice represents consumers across essential regulated markets. We are the statutory consumer advocate for energy and postal services in Great Britain.

Introduction and summary

Making homes more energy efficient can significantly reduce household energy bills and fuel poverty. It is also needed to meet our carbon targets without unnecessary costs¹. The issue is particularly urgent in the UK, where our housing stock is particularly cold and leaky, and bills higher than our European neighbours².

Pay-as-you-save (PAYS) schemes like the Green Deal could play a role in increasing uptake of energy efficiency improvements, but only if they are accompanied by other steps to increase consumer demand³. Furthermore, consumers will only engage and invest if there is sufficient protection from misselling, poor quality work and other risks.

Due to the complexities of energy efficiency and low carbon measures, and the market that's set up to promote them, strong checks and balances are needed to protect consumers. Our 2015 research on [consumer protection for energy efficiency and renewables schemes](#) included the Green Deal, and found the quality assurance framework was overly complex and didn't guarantee high quality work. From calls to our consumer helpline we've seen the serious problems consumers can end up with as a result.

The Green Deal and equivalent PAYS schemes also bring more specific consumer protection challenges. The Green Deal is a complex product, which remains largely untested: also consumers are likely to have limited understanding. Our

¹Committee on Climate Change, [2017 Report to Parliament – Meeting Carbon Budgets: Closing the policy gap](#), June 2017

² Energy Bill Revolution/ACE, [The Cold Man of Europe](#), 2015

³Citizens Advice, [Energising homeowners: Research into consumer decision-making on energy efficiency improvements](#), 2016

the limited number of contacts to the Citizens Advice consumer service we see about the Green Deal suggest this could often be the case⁴.

Some of these issues should be addressed by the Each Home Counts review of Consumer Advice, Protection, Standards and Enforcement for Energy Efficiency and Renewable Energy⁵. This was set out to raise standards across the home energy efficiency and renewables industry, in response to some of the problems faced by consumers. It is in the process of creating a single quality mark across the industry. If implemented effectively, this will provide the basis for greater consumer protection under the Green Deal and successor schemes. A single quality mark can provide a simpler and more effective framework for consumers and businesses than the current patchwork of scheme-specific protections.

Additional protections are required to cover issues specific to the pay-as-you-save scheme type, particularly given the risk of disconnection where the charge is attached to the bill. Most notably, the Golden Rule (that the energy savings a property makes in a 25 year period must be equal to or more than the cost of implementing the changes in the first place) is required as long as the loan is attached to the property. Getting rid of it would risk incoming residents finding their bills unaffordable. Protections are needed to prevent loans being taken out where they are unsuitable, particularly to households in fuel poverty or significant financial stress. Finally the complexity of the Green Deal or other PAYS schemes requires effective and coordinated messaging to all consumers.

Consultation questions⁶

1. What roles do you see in the future for the above Participants? Can any or all of these roles be fulfilled without the need for formal Green Deal status?

Our primary concern with any change to the roles of the above Participants is the need to maintain and strengthen consumer protection. Our view on the consumer protection framework for the Green Deal and similar PAYS schemes is outlined below under question 10. Where the consumer protection requirements associated with one of the above roles can effectively be fulfilled by the Each Home Counts framework that should replace formal Green Deal status. For example, for installers, we recommend that the Government consider using the Each Home Counts quality mark to provide clarity across the market and give consumers clarity around what to look for when appointing someone to

⁴ Calls to the Citizens Advice Consumer Service, Citizens Advice internal analysis

⁵ See Dr Peter Bonfield, OBE, FEng, [Each Home Counts An Independent Review of Consumer Advice, Protection, Standards and Enforcement for Energy Efficiency and Renewable Energy](#), December 2016

⁶ The full consultation document is online [here](#)

install energy efficiency measures in their homes. . With other participants, it would depend on the extent to which the Each Home Counts framework can provide the specific protections required by PAYS finance. For example, the need for an occupancy assessment and for the specific consumer messaging around the nature of the finance mechanism. Because of the specific nature of PAYS finance, opening access to any organisation holding valid authorisation from the Financial Conduct Authority is unlikely to provide sufficient consumer protection.

2. What interactions and relationships need there be between different Green Deal Participants?

From a consumer protection point of view, the interactions and relationships between Green Deal Participants should be arranged to support two things.

- 1) Clear and effective communication between Participants which supports and enables effective communication with the consumer
- 2) Clear lines of accountability and responsibility for the quality of service and work. This should include a comprehensive consumer journey, from assessment to installation and beyond - with information about advice and redress options available throughout.

3. Is it necessary for all types of assessment to be carried out by professionals (i.e. authorised Green Deal Advisors, or a future equivalent)? Would some form of self-assessment (e.g. by consumers) be possible and sufficient? If so, what might need to be in place to enable this?

While elements of self-assessment may support the consumer journey, the risk of consumer detriment because of the long-term, significant and complex nature of Green Deal finance makes professional assessment essential. This is particularly true given that the loan is taken on by subsequent occupiers of a property. Self-assessment could usefully be used to determine whether an assessment is likely to be worthwhile, given the possible cost of an assessment.

However, while professional assessment is necessary for consumer protection it is not sufficient. PAYS relies on the accuracy of Energy Performance Certificates, which has at times fallen short⁷ (we do not have evidence on the accuracy of occupancy assessments). In part this is because the quality assurance framework has not provided the right incentives to really drive up quality⁸, a key issue that was a driver behind the Each Home Counts Review⁹. So, it is essential

⁷ See our blog: [Cutting bills, not cutting corners](#), June 2015

⁸ See Pye Tait, [Quality assurance in energy efficiency and low carbon schemes in the domestic market - report for Citizens Advice](#), June 2015

⁹ See Dr Peter Bonfield, OBE, FEng, [Each Home Counts An Independent Review of Consumer Advice, Protection, Standards and Enforcement for Energy Efficiency and Renewable Energy](#), December 2016

that Each Home Counts delivers effective quality checks on energy assessments. This will involve targeting auditing where the risks are greatest, better coordination between schemes and organisations, and effective sanctions. In the case of PAYS finance this should extend to occupancy assessments.

4. In their current form, are GDARs necessary, or helpful to Providers and consumers? What outputs might lenders need in any future scenarios?

We do not have evidence on the consumer experience of GDARs. However, it is essential for consumer protection for the assessment to include the household's actual energy use, as well as the average energy use data found in the EPC plus in-use factors. Households in fuel poverty are particularly likely to be under-heating their home. Households who are under-heating are less likely to make the savings required to pay back the cost of measures, when that cost is based on average consumption. Assessment of actual energy use is essential to reduce the risk of mis-selling and consumers being left with unaffordable bills because of their Green Deal charge. This may not have to be done through the GDAR in its current form, it is an essential part of the consumer journey for any PAYS scheme. Smart meter data may provide an opportunity to increase the accuracy of information on a household's actual energy usage, and the advice given to them.

5. What value do In-Use Factors have? Do they achieve the aim of increasing consumer confidence and protection for consumers? Do they help provide lenders with confidence?

In-use factors are necessary to deliver consumer confidence. The Golden Rule is a key principle of the Green Deal/other pay as you save schemes. It is a foundation for protecting the consumer taking out the loan, and any subsequent occupiers taking on the Green Deal charge.

If the Golden Rule is going to have value for the consumer it needs to be based on accurate expected savings calculations. So, where there is a gap between the savings estimates in the EPC and the evidence on real world savings, in-use factors are required.

We do not have evidence on the robustness of the in-use factors used in the Green Deal. However, when the scheme was launched we noted that some in-use factors were based on limited evidence and it may be possible to improve the accuracy of some in-use factors.

The government should look into improving the savings estimates provided through the EPC to reduce the need for in-use factors. In-use factors are needed because of the difference between modelled savings, used in the EPC, and evidence on real-world savings. This creates an additional layer of complexity for

consumers. This may undermine confidence in or engagement with the EPC Green Deal advice report and the Green Deal process more generally. It also suggests limitations to the value of the EPC is as a decision-making tool, despite it being a key consumer engagement tool and key to other government policies, such as the minimum energy efficiency standards on the private rented sector. Although we recognise it may not always be possible, the government should aim to make the savings estimates in the EPC more accurate to limit the need for large in-use factors.

6. How might the process for incorporating new measures be made more efficient, and help enable the deployment of innovations and new technologies?

We have no specific evidence on this process. It should balance the opportunity of increasing consumer choice with the need to provide appropriate consumer protection. Some new technologies may need to develop appropriate rules and codes of practice before they can be deployed through PAYS or other schemes. The process for developing these standards can most effectively be done through the Each Home Counts framework. This may be able to learn from the work Ofgem is doing to provide a space for innovative technologies, so firms can to understand the market they are entering and any consumer protection or other regulatory issues they should be aware of¹⁰.

7. Is it better to have a list of qualifying energy efficiency improvements in secondary legislation or should the legislation just set out high-level principles (with the Standard Assessment Procedure – SAP - helping to determine whether an improvement falls within the principles)?

No answer

8. Are there alternative ways to determine what measures could be installed and funded using the PAYS mechanism, which would help enable the deployment of innovations and new technologies?

No answer

9. What do you see as the merits of including the above measures in the Green Deal? Do you have any comments on whether they meet the criteria for measures?

We do not think the Green Deal or similar PAYS scheme is suitable for connections to heat networks.

¹⁰ See [here](#)

Firstly, in general, heat networks have not been proven to be more cost effective than individual gas boilers for consumers. A customer could potentially be paying to connect to a more expensive system twice over: once through the Green Deal payments, and again via the capital repayment charges that are often a feature of district heat bills. There is unlikely to be an easy way, based on current experience, to dis-aggregate the capital element of a bill or to incentivise heat providers to do so.

Secondly, we do not think consumers should be encouraged to move from regulated energy supply to unregulated heat networks, while the latter lack essential consumer protections. The only exception to this would be heat networks which are a member of Heat Trust, a membership-based regulation scheme.

10. Could the system which provides consumer confidence, protection and redress be managed differently? For instance, do other existing general consumer protections, such as those available to consumers under the broader consumer credit regime, provide alternatives? Can you foresee developments resulting from the implementation of the Each Home Counts recommendations as offering scope for change?

Yes, there is scope for reorganisation of the consumer protection framework around the Green Deal. However, it should not fall back on generic consumer protections. Generic consumer protections are not suitable of dealing with the consumer protection challenges in the energy efficiency market or the complex nature of PAYS finance specifically. However there is scope for the Green Deal framework to work with the Each Home Counts review to simplify the consumer protection framework and raise standards.

In 2015, Citizens Advice looked into the consumer protection for energy efficiency and renewables schemes, including the Green Deal. We found that protections were overly complex. A patchwork of consumer protection frameworks for different schemes led to inconsistency, duplication and gaps. Moreover, it didn't always guarantee high quality work and consumer outcomes. With the Green Deal we also saw particularly significant and widespread problems with cold-calling scams, which exploited consumer confusion about the nature of the scheme. The Government's communications on the Green Deal were potentially misleading. This may have added to consumer confusion and increased the scope for misselling¹¹.

¹¹ Citizens Advice. [Written Evidence to the Commons Select Committee on Energy and Climate Change Green Deal watching brief \(part 2\) inquiry](#), 2014
Consumer Futures. [Written Evidence to the Commons Select Committee on Energy and Climate Change Green Deal watching brief \(part 2\) inquiry](#), 2014

The Government launched the Each Home Counts Review in response to this type of issue. The Review set out a proposed framework to address identified shortcomings in consumer protection at key stages of the consumer journey:

1. Sales, marketing and contracts
2. Standard of work
3. Help if something goes wrong

It recommends

- minimum requirements for a Code of Conduct for all organisations that wish to participate in the energy efficiency market, including agreed requirements on issues, such as sales practices, better pre-contractual information, and a requirement for appropriate financial protections for installations.
- A consistent and fair redress process, including providing a single point of contact for consumers, with capability to support vulnerable consumers, an agreed standard for complaint handling, and access to Alternative Dispute Resolution.
- Stronger standards and compliance and enforcement procedures to raise the quality of work.

The proposed framework is not specific to one scheme, as it was under the Green Deal, but seeks to cover the whole energy efficiency and renewables market. If implemented effectively it will address consumer protection problems caused by variable protection levels across schemes and at the interface between schemes. We think this is the right approach.

The review report has the backing of industry and the government. Government must support industry to ensure that the recommendations are put into practice effectively. If this is achieved, the Each Home Counts framework should provide the basis for many of the consumer protection requirements of the Green Deal.

While Each Home Counts should cover areas that are generic across the energy efficiency market, additional protections are required to cover issues specific to the Green Deal and PAYS schemes type. Most notably, the Golden Rule is required as long as the loan is attached to the property. Getting rid of it would greatly increase the risk incoming residents struggling with unaffordable bills.

Given issues with misselling related to the Green Deal, seen in contacts to Citizens Advice Consumer Service, as well as raised through the Each Home Counts process, there is a specific need for better messaging on the Green Deal/PAYS finance, as well as on energy efficiency more generally. The Each

Home Counts review called for Advertising Standards Authority approved, sector-specific guidance on appropriate messaging and agreed advice and information for consumers, reflecting among other things, the uncertainty associated with payback of energy efficiency measures. This should include specific guidelines and requirements for PAYS finance.

11. Does the disclosure of a Green Deal Plan to prospective homeowners or tenants have to be by means of providing an Energy Performance Certificate? What alternatives exist?

It is essential that prospective homeowners or tenants are made aware of whether or not a property has a Green Deal plan and what the details of any plan are. Given awareness and understanding of Green Deal finance is likely to be low this should be done proactively during the marketing and sales process. Prospective homeowners and tenants cannot be expected to proactively ask about the Green Deal plan. Where a consumer moves into a property without fully understanding the nature of a Green Deal charge, there is a risk of serious consumer detriment.

Disclosure of the Green Deal plan should continue to be done through the Energy Performance Certificate, as a minimum. It is a legal requirement to show the EPC to prospective homeowners and tenants and there is also a clear link between the information in the EPC and the Green Deal charge. So we see little rationale for removing Green Deal disclosure from the EPC.

However, we do not have any evidence of the effectiveness, or otherwise, of using the EPC to disclose the Green Deal. We note that consumer awareness, interest and engagement with EPCs has been low in the past, although this may have increased somewhat in recent years¹². We also do not have evidence on compliance rates for disclosure of the EPC. Finally, we do not have evidence on the extent to which, when a property has a Green Deal, disclosure of the EPC will effectively communicate the Green Deal charge.

If the current Call for Evidence does not provide evidence on the effectiveness of current the method for disclosing the Green Deal charge through the EPC, we recommend BEIS carries out research on this, given the potential for consumer detriment if disclosure if not effective. In light of this, there may be a need to require the Green Deal charge be disclosed in different ways. More effective ways to inform consumers may arise through the development of the Data Warehouse and Information Hub within the Each Home Counts review.

¹² Consumer Focus, [Room for improvement](#), 2011

13. Do you have any other comments on these elements of the Framework? Are there any ways in which they could be re-organised and improved, without any detriment to the consumer?

No answer.

14. Are there changes that could be made to the Framework to make it more accessible or attractive to landlords and tenants in both the private rented and social housing sectors?

The Green Deal charge is paid through the energy bill. In most rented properties, it is the tenant, rather than the landlord, who pays the bill. We doubt that the Green Deal or PAYS finance will be an attractive proposition for many tenants. We particularly do not think that it is a suitable way for landlords to meet statutory minimum standards, as set out in the Private Rented Sector minimum energy efficiency standards, on grounds of fairness, as well as effectiveness¹³. An exception would be where the landlord or pays the energy bill. Here PAYS finance may be a suitable way for them to finance their obligation. Because of the shortcomings of the current PRS energy efficiency regulations, we recommend that the government bring in a minimum energy efficiency standard, with a £5000 cost cap. This is based on research that shows the net benefits of such a move to tenants¹⁴.

15. Do you see a need for specific Green Deal authorisation and accreditation? What role might parties involved in this play in the future?

As outlined in Questions 2 and 10 above, some Green Deal participants may be able to be authorised and accredited through the Each Home Counts framework. As outlined in Question 2, the extent to which will be the case will depend on the extent to which Each Home Counts covers specific issues associated with PAYS finance.

16. We would welcome comments on any of the above elements of the Framework, and whether there is any case for a change in arrangements and the feasibility of making any such changes.

From a consumer protection perspective, the GD ORB provides an oversight function across certification bodies and other Participants. Our research into quality assurance suggests that this kind of oversight function is necessary, because of ineffective incentives for certification bodies and other market participants and the resulting risk of inconsistency. This oversight role would be better provided across the whole energy efficiency market, something the Each

¹³Citizens Advice, [Effective energy efficiency standards for private renters](#), October 2017

¹⁴Citizens Advice, [Effective energy efficiency standards for private renters](#), October 2017

Home Counts review sets out to do. The Each Home Counts framework could therefore supersede the GD ORB, or some functions of it, but only if it can be shown to provide this oversight role.

17. We would welcome any views on the administration fee, including on the amount, and whether this is the most appropriate way of compensating suppliers for the costs of collecting the Green Deal charge.

No answer

18. Are there factors that we have not identified that you believe will, or should, influence the future of the Framework? How might they influence it?

No answer

19. Are there any other opportunities to improve the Framework, not covered by the above?

No answer

20. Are there any aspects of the Framework you wish to comment on specifically in relation to non-domestic usage of the Green Deal, not covered above?

No answer

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