

National Housing Maintenance Forum

Using the Green Deal to Support Low Carbon Retrofit

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Introduction

- The Green Deal
 - A brief summary
 - Strengths and weaknesses
 - Implications for housing organisations
- Using the Green Deal to support LCHR
 - Integrating LCHR into asset management strategies
 - Integrating the Green Deal, ECO, FiT and RHI
 - What can these funding streams contribute?
- Conclusions

The Green Deal

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3

What is the Green Deal?

- Coalition Government flagship policy to promote low carbon retrofit of the existing building stock
- Provides for funding of retrofit by commercial loans repaid by levies on fuel bills
 - No upfront cost to household or landlord
- Capital cost repaid via levy on the fuel meter, collected by energy company over 25 years
 - Debt is attached to building, not to occupant
 - Occupants only pay while benefitting from retrofit

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The Golden Rule

- Repayments must not exceed expected savings
 - Domestic savings predicted by improved SAP
 - Under-heated households may not see savings
- Essentially no saving to occupants
 - Green Deal levy cancels out fuel cost savings
 - Provides partial protection against rising fuel prices
- Golden Rule caps investment
 - Complexity and overheads reduce funding
 - Available funding increases with fuel prices

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Customer Journey



Assessment

- By Green Deal Assessor who creates Green Deal Plan
- Scope of Green Deal Plan limited only by Golden Rule
- Plan may be implemented by any Green Deal Provider

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Customer Journey



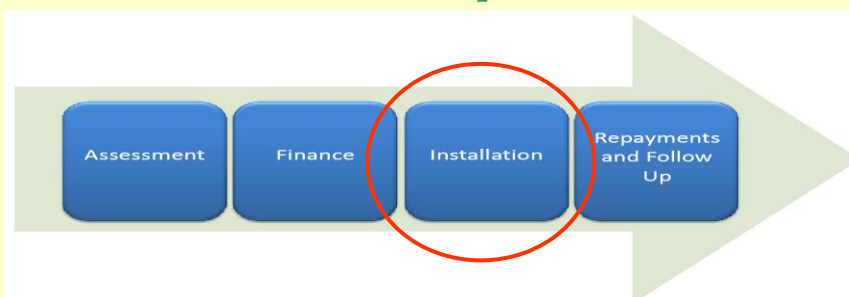
Finance

- Funding arranged by Green Deal Provider
- Repayment charge attached to fuel meter
- Funding is not secured on the property
- ECO subsidy can also be arranged

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Customer Journey



Installation

- Green Deal Provider arranges installation of measures
- Installers must be 'accredited'
- Work must comply with GD CoP and BSI PAS 2030
- Green Deal Provider must guarantee the work

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Customer Journey



Repayment

- Green Deal charge shown separately on fuel bill
- Energy company consolidates payments to funding body
- Charge transfers to subsequent occupants of building
- Charge must be disclosed on offer for sale or rent

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Customer Protection

- Accreditation
 - Green Deal providers accredited by UKAS
 - Installers must be accredited via industry schemes
- Green Deal Code of Practice
 - Green Deal Providers and Installers must sign up
- Publicly Available Specification
 - BSI PAS 2030 – for installation of measures
- Green Deal 'quality mark'
 - To be displayed by all participating organisations

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10

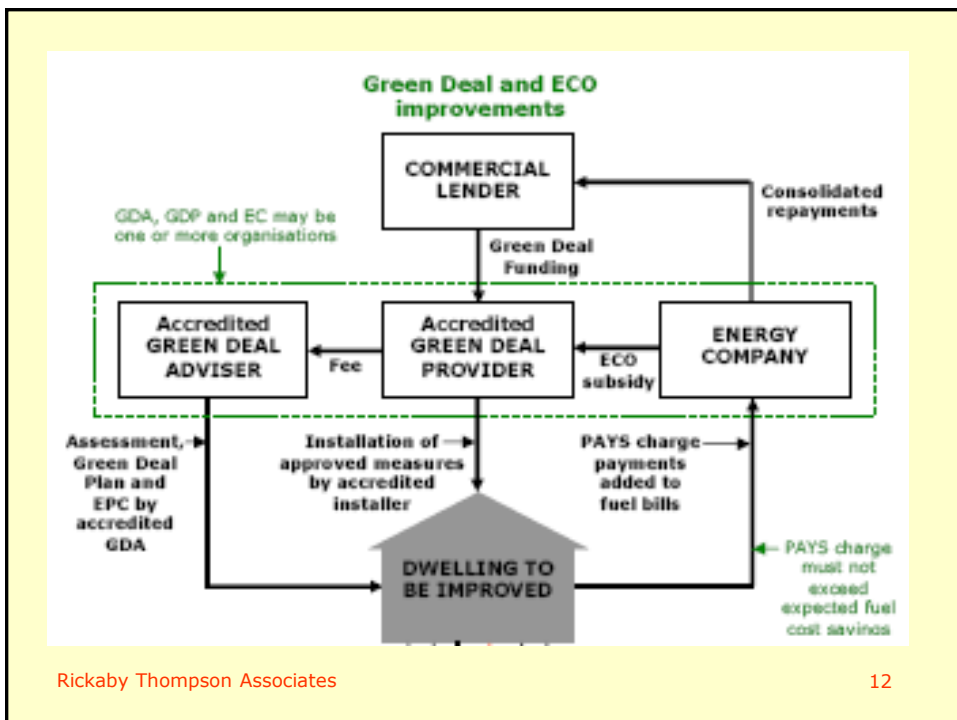
Complementary Funding

Energy Company Obligation

- ECO will replace existing Supplier Obligation programmes (e.g. CERT) from 2012
- Fuel suppliers obliged to spend £1.3 billion per year to improve the energy efficiency of homes and other buildings
- ECO will subsidise the Green Deal where the Golden Rule is difficult to meet:
 - Fuel poor households
 - Hard to treat dwellings (off-gas, solid wall)

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Policy weaknesses

- Complexity
 - A simple idea (PAYS) has become very complicated!
 - Complexity increases costs, reduces scope of work
 - Much complication not appropriate to social housing
 - GDP role will be a high volume low margin business suitable only for very large organisations
- Financial inefficiency
 - At 6% over 25 years, 50% of payments are interest
 - Housing organisations can borrow at better rates
 - For LCHR most Green Deals will need ECO subsidy

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Policy weaknesses

- Inappropriate provision for QA
 - Duplication of existing processes in social housing
 - Focus should be on project management, customer care and proper integration of measures, not solely on the installation of individual measures.
 - We need a cadre of Green Deal Project Managers
 - Who already exist in the social housing sector
- Lack of incentive to participate
 - Low carbon retrofit can be very disruptive
 - Occupants will not be better off – just less worse off than they would have been without the Green Deal

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Key points for housing providers

- Achieving low carbon standards (SAP 80, C60) is beyond the means of most housing organisations unless they can maximise income from the Green Deal, ECO, FiT and RHI
 - Potential for 50% of funding from these sources
- The Green Deal is not an attractive funding mechanism for housing organisations
 - The rate of return on investment is poor
 - Most organisations can borrow at better rates
 - Investment could be recovered more simply via rent increases or service charges

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Key points for housing providers

- There is little incentive for tenants to participate
 - Tenants may be unwilling to pay for work that they see as their landlords' responsibility
 - Landlord / tenant responsibilities need clarification
 - Proposed energy standards for the private rented sector appear to shift responsibility towards the landlord
- Green Deal Provider role unattractive?
 - High volume low margin, and high risk business
 - Robust partnerships with GBPs are more attractive
 - To support coherent low carbon retrofit strategies

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Using the Green Deal to Support Low Carbon Retrofit

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Low carbon retrofit strategy

- Key focus of asset management strategy
 - 20-30 year delivery timescale
- Retrofit standards
 - SAP 80 (affordable warmth) and C60 (emissions)?
- Housing Stock Energy Study
 - Scope and cost of work
 - Potential for external funding
 - Evaluate the funding gap
- Medium-term retrofit plan for each dwelling type
 - Shopping list of low carbon measures
 - Protection of opportunities

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Retrofit standards

Drivers for standards

- Affordable warmth: minimum SAP 80
 - Protects tenants against rising fuel prices
 - DECC expects 52% (gas), 70% (electricity) by 2020
- Emissions reduction: 60% (C60)?
 - 80% reduction is not appropriate of affordable
 - 60% takes account of grid decarbonisation
 - 60% costs £25,000/dwelling (half as much as 80%)
 - Not currently affordable

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Housing Stock Energy Study

- Investigate implications of retrofit standards
 - SAP 80 (proxy affordable warmth standard)
 - C60 (60% reduction in carbon dioxide emissions)
- Estimate or identify
 - Numbers of dwellings to be improved
 - Appropriate improvements for each dwelling type
 - Capital costs (by dwelling type and overall)
 - Carbon dioxide emissions reductions
 - Fuel cost savings to residents
 - Potential income from Green Deal, ECO, FiT and RHI
 - Time required to meet the standards

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Funding retrofit

- A new approach is required
 - Refocus the asset management strategy on retrofit
 - Establish a comprehensive retrofit strategy
 - Improvement plan for each dwelling type
 - Marshall funding from multiple sources
 - Significant 'off balance sheet' funding
 - Green Deal, ECO, FiT, RHI, etc
 - Potentially 50% funding for C60
- LCHR strategy drives funding requirement
 - Rather than improvements determined by funding

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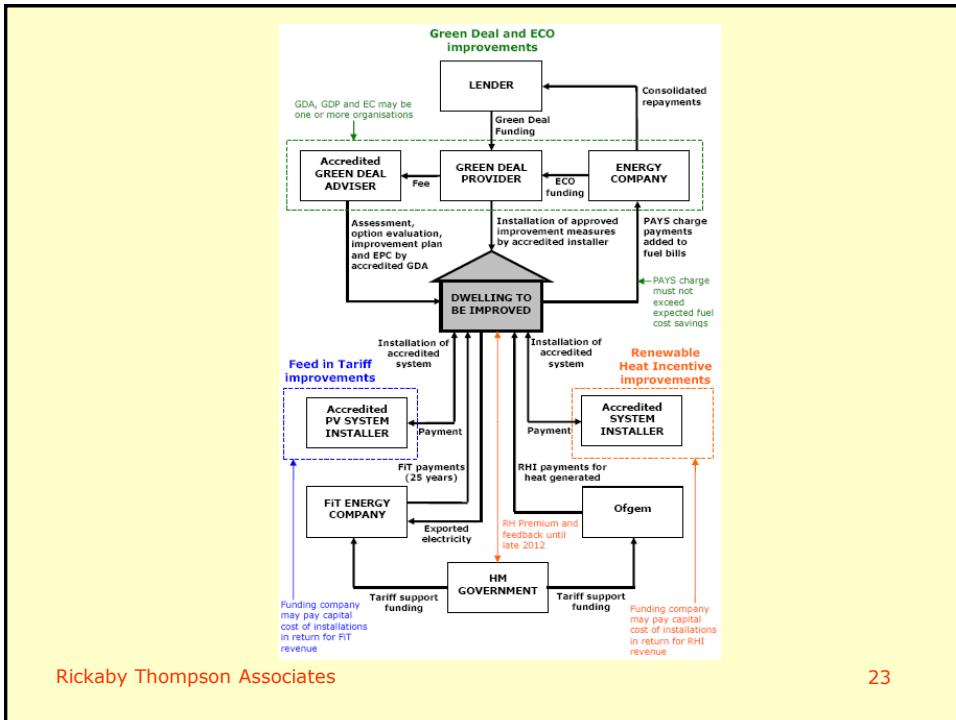
21

Funding retrofit

- The Green Deal
- Energy Company Obligation
- Feed in Tariff
- Renewable Heat Incentive
- European Regional Development Fund
- European Investment Bank
- Green Investment Bank

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Funding retrofit

The funding gap

- C60 average cost per dwelling \geq £25,000
- Green Deal + ECO may provide 50%
- Funding gap is £12,500/dwelling

Bridging the gap

- FiT (PV) and RHI (SWH) provide income stream
 - Rate of return is 7-8%
 - But must invest own or third-party capital
- Balance from internal resources, ERDF, EIB?

Conclusions

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What should we be doing?

- Establish a medium-term retrofit strategy
 - Marshal external funding to support it
 - Potential for 50% support from GD, ECO, FiT and RHI
 - Consider other funding sources such as ERDF
- Consider becoming a Green Deal Provider
 - Alone or in partnership with others
 - e.g. other providers, procurement cooperative, etc.
 - For owned/managed stock or for a wider audience
- Seek robust partnerships with GDPs
 - Partners must understand and support retrofit strategy

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Exploiting the Green Deal

- Finding appropriate GDP partner(s) should now be every housing organisation's priority
- Without a Green Deal strategy it will be difficult to refuse Green Deals offered to tenants by other GDPs
- A robust Green Deal partnership will avoid random pepper-potting of stock with inappropriate improvements
 - and consequent loss of control of the assets

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Questions and Discussion

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