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## The Green Deal: Options for Business

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16<sup>th</sup> December 2011  
FINAL

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Green Deal **Nationwide**  
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# The Green Deal: Options for your Business

## Introduction

***“The Green Deal will be the biggest home improvement programme since the Second World War shifting our outdated draughty homes from the past into the future, so it’s vital people can trust it.”***

Ambitious Government words but the ‘Green Deal’ - to be launched in October 2012 - remains an enigma to the majority of the UK population. With its complexities, uncertainties, political U-turns, delays and a general lack of profile, the scheme has not yet fostered the consumer and market confidence that would have been expected. How will the construction industry, including the supply chain, deliver the Green Deal?

The proposed new Green Deal is designed to improve energy performance of buildings, meet UK carbon reduction targets and reduce rising energy bills, it is deemed a catalyst for private investment to boost growth and stimulate the economy. The concept is a determined effort by Government to create a new market where corporate companies and small businesses may compete in delivering ‘Green Deal plans’ to customers.

The £6.5bn-a-year investment will create an estimated 100,000 new jobs by 2020. However, this brilliant concept is blighted by apprehension and confusion around skills shortages, capacity of supply chains, market share for small businesses, and perceived lack of consumer demand. The proposed new BSi standard, PAS 2030, which is intended to provide specifications for the installation of energy efficiency measures in existing buildings, also needs to be clarified. There are opportunities but also challenges as the UK prepares for the “biggest home improvement programme since the Second World War.”

This report looks at these issues and the options available to businesses under the Green Deal scheme.

## The Green Deal Scheme

The Green Deal is a scheme for UK’s domestic and non-domestic housing and building stock, and is designed to finance all or part of a package of energy efficient ‘measures, products or systems’ - that are classed as eligible for Green Deal finance and proven to improve the energy performance of a building.

### Measures Covered in draft PAS 2030

<b>Heating, ventilation and air conditioning</b>	Condensing boilers Heating controls Under-floor heating Heat recovery systems Mechanical ventilation (non-domestic) Flue gas recovery devices
<b>Building fabric</b>	Cavity wall insulation Loft insulation Flat roof insulation Internal wall insulation External wall insulation Draught proofing Floor insulation Heating system insulation (cylinder, pipes) Energy efficient glazing and doors
<b>Lighting</b>	Lighting fittings Lighting controls
<b>Water heating</b>	Innovative hot water systems Water efficient taps and showers
<b>Microgeneration</b>	Ground and air source heat pumps Solar thermal Solar PV Biomass boilers Micro-CHP

The Green Deal also has a role in reducing the UK's greenhouse gas emissions under the Climate Change Act 2008. This Act sets legally-binding carbon budgets for the next 12 years impacting on the energy efficiency of communities, homes, and businesses. To meet the carbon reduction targets, on 2008 levels, emissions need to be cut by 42% by 2022.

At the core of the Green Deal scheme is the Green Deal Finance Mechanism. This will provide low interest loans with no up-front costs and calculated on a property's estimated cost savings likely to result from the installation of Green Deal measures. This guiding principle, the 'Golden Rule', will cap repayments that can be attached to a customer's electricity bill - instalments will be collected by electricity companies on behalf of Green Deal providers. These loans will stay with the Green Deal improved properties and taken on by a new bill payer when moving in or taking up ownership.

The Green Deal is focussed on being consumer-led, allowing customers to choose Green Deal providers who then contract a supply chain of installers. They may do this by using their own in-house installers or by sub-contracting to independent installers.

Another crucial factor is independent and impartial information for customers. To safeguard this, the Government is proposing a Remote Advice Service with trained advisors to advise on the Green Deal together with advice on the Energy Company Obligation (ECO), Renewable Heat Incentive, and the Feed in Tariff. All Green Deal participants will have to inform customers about the remote advice line and website.

### The Green Deal Business Options

The Scheme will present many opportunities throughout the UK's industries, sectors, trades, and professions. With the billions of pounds worth of investment due over the next 10 years, business opportunities will be many and diverse. This means that businesses of all sizes, whether specialist or

generalist – including local authorities, housing associations, and voluntary organisations – will have an opportunity for business growth under the Green Deal.

### Sample Business Options

Organisations will be able to decide for themselves which functions they want to provide. The models may include:

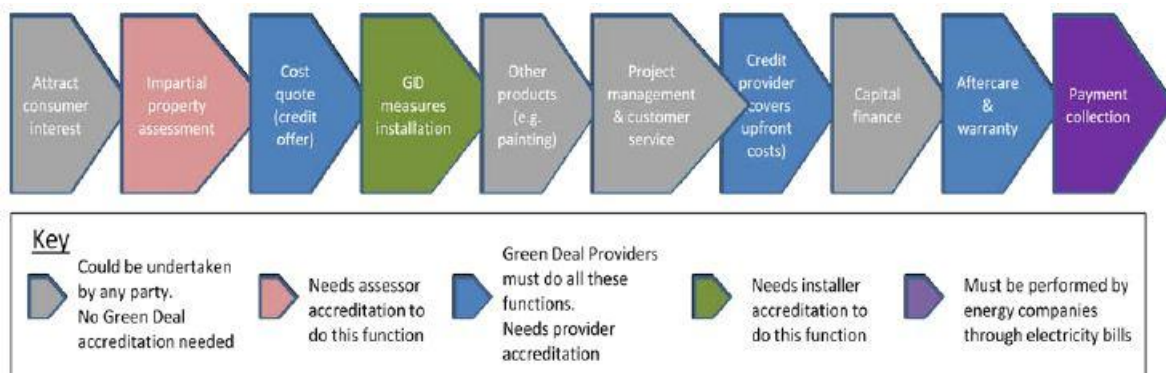
- Partnering with other a number of other organisations choosing who to partner with.
- Delivering every part of the Green Deal plan in-house using their own employees.
- Specialist organisations in one function to partner other specialist organisations with another function to deliver the Green Deal.

In practice, a working model may look like:

- A specialist installer works with customers, organise the work and install measures.
- The Green Deal provider provides the finance.
- Another organisation, such as a contractor, local authority, or charity undertakes the independent assessments.

However, the Green Deal will only reach its full potential if the market is open and competitive, enabling both the big and small players to compete with each other to meet customer demands. In response to this, no single model will be proposed for businesses to follow. Instead, there will be a mix of business models, including Government encouragement and support for new and innovative models.

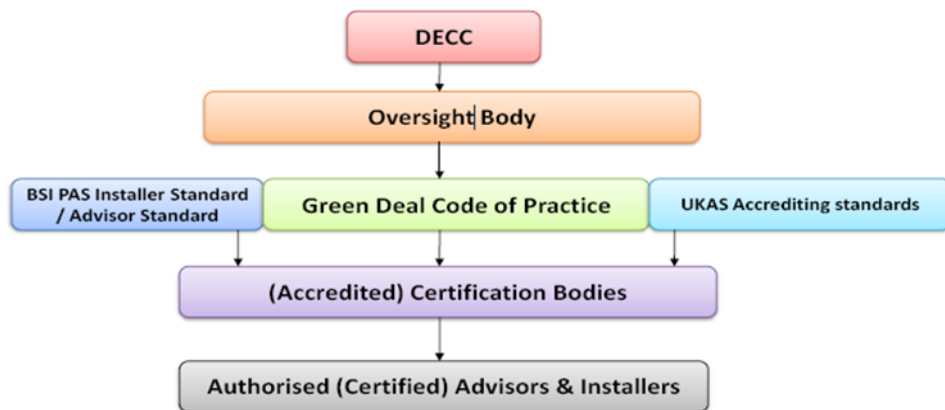
The Diagram below (source: Green Deal & ECO Consultation Document 2011) shows how a working example can deliver every part of a Green Deal plan:



In order for small businesses to gain a competitive advantage, they will need to re-invent, re-position, and develop their skills to meet a Green Deal Accreditation Framework. Following the final PAS 2030 and an Accreditation Framework due in February 2012, businesses will only have six months to access and gain further education, be certified, and accredited by October 2012.

## The Green Deal Accreditation Framework

It is proposed that an Oversight Body will administer and monitor the activities of Green Deal participants. Its many functions will include maintaining a register of Green Deal Advisers, providers, and installers; monitoring compliance with a Code of Practice; and issuing Green Deal Quality Marks. The diagram below (source: Green Deal & ECO Consultation Document 2011) shows the proposed accreditation framework:



All Green Deal participants will need to carry the new 'Green Deal Quality Mark' so customers can see they are accredited to the standards of the Green Deal Scheme. How each function receives this is explained below.

**Green Deal Providers:** Green Deal Providers are responsible for the provision of finance and energy efficiency works. Organisations seeking to be Green Deal providers must be authorised by the Secretary of State by way of application through the Green Deal Oversight Body. A Green Deal Provider must comply with a Green Deal Code of Practice; sign up to an Arrangements Agreement with electricity suppliers; and hold a valid Consumer Credit Act 1974 licence to Green Deal finance domestic properties.

**Independent Green Deal Advisors:** They will need to meet training and qualification requirements which are yet to be finalised. Advisors must register with a certification body accredited by UKAS, and then be certified against the Code of Practice. A Green Deal Advisor will be able to produce the Green Deal plans arising from the assessments of properties.

**Green Deal Advisory Services:** Whether sole traders or organisations, they must be certified by an accredited certification body. UKAS will independently accredit the certification bodies using the Scheme Standard 'BS EN 45011' which will cover the provision of a Green Deal service.

**Installers:** It is likely that the option for independent accreditation of existing trade certification bodies will be applied. This will reduce bureaucracy, timescales, and costs. The standards and accreditation framework for installers will ensure that work is completed to a high standard of technical expertise and customer care. Once installers are Green Deal accredited, it will be the responsibility of the trade certification bodies to ensure they meet the Green Deal standard and Code of Practice.

### **Overcoming the Barriers**

There are thousands of businesses who do not have the skills or knowledge to move into a new 'green' market. They may find requirements onerous such as the proposed Publicly Available Specification (PAS) 2030 for installers, the sheer amount of training required, and processes with certification bodies. The final PAS 2030 specification for green skills and qualifications is due early 2012. This PAS is a sponsored fast-track standard developed by the British Standards Institute and it will be the common denominator for all retrofit refurbishments, not just the Green Deal financed work. Without it, businesses will not be eligible to undertake any work referenced in the 22 Annexes of specific requirements. There will of course be some opportunities outside the Green Deal, such as rainwater harvesting and voltage optimisation, but these may still require trade specific qualifications and accreditations.

The supply chain may be geared up ready for the Green Deal, but some trades within the construction industry are not. For example, the number of external and internal wall insulation installers will need to significantly increase over the next decade as installation rates due to demand are expected to increase at least ten-fold.

It is also important to assess the level of interest in the Green Deal. A survey undertaken in March 2011 showed that 75% of respondents cited at least one disadvantage of the scheme, including the hassle of improvements; financial considerations; and long term commitment. This is not surprising. With our poor track record of demand for energy efficiency retrofits despite various subsidy programmes, a large commercial market for energy efficiency never emerged in the past.

There is much to be done to avoid the failures of the past. The 'public perception challenge' will need to be tackled in various ways, such as an inspirational marketing drive, and more incentives like stamp duty exemptions and reduced council tax rates. Acknowledging a possible lack of interest in the Green Deal, the Government has made available a fund of £200 million on introductory cash-backs for the first wave of Green Deal customers. This cash-back incentive, and the fact that wholesale energy costs will continue to rise, particularly for gas, may well help to drive the demand for the Green Deal in any event.

Not every household will save on energy bills under the Green Deal; neither will every measure pay for itself for every household. Lower income and vulnerable households who typically do not have the heating on long enough will not benefit from energy efficiency cash savings. Energy companies, under the new Energy Company Obligation ECO, will therefore provide additional support to low income and vulnerable customers who cannot afford to heat their homes. There are also many properties that are hard to treat and expensive to improve due to construction type. As the

required measures for these may not always meet the Golden Rule, extra funding will be required to improve their energy efficiency.

### **Will the supply chain have sufficient capacity to deliver the Green Deal and energy efficiency retrofits?**

To put this into perspective, Government assumptions show there are 6 million households with lofts not insulated to a recommended level; 6 million homes do not have full double glazing; and 70% of homes are without a full set of heating controls. Green Deal Advisors will be encouraging 'a whole house approach' to energy efficiency, installing multiple measures at one time. It is important, therefore, to look at the state of readiness of the supply chain to deliver a whole house approach in millions of properties. In response to concerns, manufacturers; distributors; installers; and trade associations were surveyed very recently to assess their ability to increase production rates. Although the outcome of the survey has not yet been published, early findings generally show that the supply chain does have the capacity and is unlikely to be an obstacle for Green Deal. The Green Deal & ECO Consultation Document states that the supply chain will respond positively to the concept of 'whole house approach' and will therefore invest and innovate both products and products processes.

### **Conclusion**

The Green Deal still has a number of grey areas. However, there is undoubtedly an opportunity to significantly improve the energy efficiency of UK properties given the right package of incentives to encourage take up of the scheme and for investors to provide the up-front capital costs. It is also clear that Green Deal success or failure will depend on the access to and competition within a new marketplace.

Early 2012 will see a solid foundation with which to build business opportunities under the Green Deal's array of legislation, accreditation frameworks, and business models. Businesses, therefore, need to take immediate action to be Green Deal ready and prepare for the right skills, knowledge, certifications, and accreditations. A good starting point for businesses, prior to the impending Green Deal framework, would be to join relevant professional and trade associations, to gain an in-depth understanding of Green Deal, and to commence current relevant trade and professional qualifications, certifications, and accreditations.

And last, but not least, have vision! Without it, many businesses will simply not survive the biggest home improvement programme since the Second World War.

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16<sup>th</sup> December 2011