

The Green Deal and energy efficiency supply chain development

Policy lessons from a case study of Birmingham

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This briefing explores whether Green Deal policy has delivered the green economy benefits of regional energy efficiency supply chain development through a case study of Birmingham Energy Savers. Research conducted by Anna Watson and Localise West Midlands explored the insights of key national and regional stakeholders, with findings indicating that at present Green Deal policy is failing to deliver green growth in Birmingham. At a regional level this is due to the utilisation of a single large, national Green Deal provider, which was unable to best work with local businesses and consumers to deliver sustainable market growth. This failing can be framed within national Green Deal policy issues around the centralisation and complexity of Green Deal financing, which has further retarded the development of regional energy efficiency markets.



Key policy recommendations:

1. **Move away from utilising a single Green Deal provider:**
 - Maximise the input of local not-for-profits and social enterprises in driving market demand
 - Allow small-to-medium sized enterprises the freedom to act as their own provider
2. **Provide greater support and longer lead times to local authorities for Green Deal delivery**
3. **Make national Green Deal policy more appealing to small-to-medium sized enterprises and homeowners:**
 - Simplify and improve the interest rates offered by Green Deal financing
 - Support initial market development through sustained Home Improvement Fund style grants

Introduction

Improving domestic energy efficiency (EE) is key to meeting the UK's 2050 climate change target, as well as providing the opportunity to develop a sustainable domestic industry worth billions of pounds. The uptake of EE improvement measures however faces multiple barriers, requiring innovative public policy to convince sustained numbers of individuals to make expensive and disruptive improvements to their homes. Green Deal (GD) policy aims to meet this challenge by creating an EE market un-reliant on government subsidy, acting as a sustainable engine for green economic growth.

The GD was introduced in 2013 and works by providing Green Investment Bank loans to households, which are paid back with the savings made on energy billsⁱ. This mechanism prevents the need for householders to pay upfront for efficiency improvements and so aims to create a sustainable, demand-led EE market, free of government support. GD policy is innovative in its aim to unlock the green growth potential of the EE retrofit service (EERS) supply chain, which until now has remained fragmented and reliant on government subsidy.

The delivery of GD opportunities has been regionally devolved, with local authorities (LAs) encouraged to work with householders and the local EERS supply chain to drive successful uptake and maximise the benefits of locally sustained green market growthⁱⁱ.

Localise West Midlands therefore see the GD as an opportunity to create sustainable local jobs whilst reducing carbon dioxide emissions, presenting a cost effective, socially inclusive way in which to boost the local economy whilst improving the sustainability of the region's' housing stock.

Birmingham Energy Savers

Birmingham was the first LA to develop a GD delivery programme: Birmingham Energy Savers (BES). The aim of BES was to deliver EE retrofit to 60,000 households by 2020, satisfying the Birmingham Declaration on Climate Change, which seeks to retrofit 10% of homes by 2015ⁱⁱⁱ. BES also set out to maximise the use of local businesses, and so aimed to reduce unemployment and nurture strong local supply chains^{iv}.

In 2013 Carillion Energy Services was selected to become sole GD provider- responsible for arranging household assessment, financing for recommended work from the Green Investment Bank and the installation of these improvements, as well as working with Birmingham City Council to promote GD opportunities to homeowners. Carillion agreed to adhere to key performance indicators around the recruitment of local businesses and staff members to promote and deliver GD improvements, endeavouring to retain localised benefits of job creation and economic growth initially envisaged at the conception of BES.

The GD and energy efficiency supply chain development

Energy efficiency retrofit service (EERS) supply chain development research identifies that the GD approach to efficiency retrofit has the potential to maximise four metrics required to expand and sustain the delivery of regional green economy benefits: the extent to which companies and employees within the supply chain remain localised, the involvement of small-to-medium sized enterprises (SMEs), trusted standardisation to guarantee the integrity of EE improvements and the potential around which to build economies of scale^v. These metrics were analysed against research on the performance of BES in order to assess the extent to which these metrics are currently being maximised by regional GD delivery.

Results suggest that regional policy should:

1. Move away from the approach of utilising a single GD provider

Poor understanding of local authority (LA) priorities and lack of synergy with pre-existing local organisations has prevented BES from utilising existing local supply chain capacity. Taking a centralised approach to GD promotion and delivery has failed to nurture trust amongst homeowners, retain local market knowledge and integrate SMEs into Carillion's pre-existing supply chains. Consequently desired GD uptake and the accompanying green economy benefits have not been realised. **LAs should instead endeavour to:**

Maximise the input of local not-for-profit organisations and social enterprises in driving market demand

By shifting delivery away from one large provider (optimised for large scale, business-to-business operations) and towards many smaller providers, organisations will be better positioned to create and nurture locally relevant business-to-customer relationships. This will allow a move away from untailored cold calling, instead driving sustained uptake through individual household experience.

Investment should focus on developing locally tailored marketing materials and boosting the capacity of community organisations in becoming a coherent, trusted hub of GD information as to increase local understanding around the process. Such an approach has been identified in the creation of 'community gateways'^{vi}, which would also present opportunities to bundle small clusters of homes together in making relevant improvements, further strengthening economies of scale.

Allow SMEs freedom to act as their own provider

The operational overheads and economy of scale requirements of utilising a single large provider has prevented the effective integration of SMEs into supply chains, causing regional capacity to remain underutilised. As a result the investment of time and money required by SMEs to obtain GD accreditation remains uneconomic, as a growing market and sizable margins are not yet present to catalyse growth training or employment.

The potential clustering of 25 SMEs is being explored in Birmingham to allow for a move away from the current BES model, facilitating appropriate economies of scale for purchasing in bulk, as well as allowing more locally tailored approaches to marketing and finance options. This reconnects SMEs with their customer base, allowing for more efficient engagement and building the trust and knowledge required to generate economies of scale.

In combination with the support of community gateways therefore, the EE market can reutilise the approach of organic, household-by-household growth whilst benefitting from the economies of scale offered by increasing consumer demand and ability to create local industry clusters.

These regional suggestions should be framed within the broader national GD policy recommendations:

2. Greater support and longer lead times for local authorities

LAs should be given the opportunity and budgetary support to develop the capacity required to provide knowledgeable coordination, targeted marketing and ongoing monitoring of GD implementation. This would facilitate the creation of meaningful economies of scale, as LAs too become a trusted EE delivery partner of local SMEs. Support from other council departments will also be engendered as targets around climate change, economic growth and social equality can all be addressed by sustained domestic EE improvement.

In building LA capacity around EE delivery they will better be able to move away from reliance on GD finance and explore other funding options better tailored to specific regional priorities, and so regarding regional EE market growth beyond the support of specific GD policy.

3. Make national GD policy more appealing to SMEs and homeowners

The failure of BES to create the adequate, secure economies of scale required to facilitate green growth can be framed within national GD policy flaws. Research identified two primary issues: the inadequacy and complexities of the GD finance mechanism and policy uncertainties- demonstrated by recent experience of the GD Home Improvement Fund (GDHIF). These factors have caused national uptake to remain extremely low, failing to deliver the green economy benefits espoused at its launch and making a fraction of the impact on climate change mitigation compared with previous subsidy-led policy mechanisms. **Our research suggests that the following would be beneficial in increasing national market demand:**

Simplify and improve the interest rate of GD financing

National policy makers should seek to simplify the process of obtaining a GD loan and reduce the current interest rate, to make it a more appealing and saleable opportunity. These changes would better enable local SMEs to understand and confidently sell the advantages of utilising the GD and make the loan agreement less intimidating and more financially beneficial for homeowners.

Support initial market development through sustained GD Home Improvement Fund style grants

Response to the GD Home Improvement Fund (GDHIF) demonstrated that consumer demand can be dramatically increased if grants for EE improvements are made available alongside the GD. Greater access to initial financial support, sustained over a set period, will encourage initial market development and provide a guaranteed basis on which to grow an emerging EERS supply chain. By phasing in grants over a certain period SMEs will have the time and solid policy commitment to be able to invest in expensive certification, as economies of scale are initially guaranteed to pave the way for the GD approach to market growth.

Find out more

If you would like to request a full copy of the report please contact author Anna Watson:

Email: annahollidaywatson@gmail.com

Web: au.linkedin.com/in/annahollidaywatson/ Twitter: [@AnnaHolliday](https://twitter.com/AnnaHolliday)

About us

Localise West Midlands promotes local supply chains, money flow, ownership and decision-making for a more just and sustainable economy. We are a think-tank, campaign group and consultancy.

Tel: 0121 685 1155 Email: info@localisewestmidlands.org.uk

Web: www.localisewestmidlands.org.uk Twitter: [@LocaliseWM](https://twitter.com/LocaliseWM)

ⁱ Department of Energy and Climate Change (DECC), (2012). "Green Deal: Supply Chain." Tackling Climate Change: Green Deal-Industry. Available from: http://www.decc.gov.uk/en/content/cms/tackling/green_deal/gd_industry/supply_chain/supply_chain.aspx

ⁱⁱ Department of Energy and Climate Change (DECC), (2014). The UK's National Energy Efficiency Action Plan and Building Renovation Strategy. Available at: <https://www.gov.uk/government/publications/the-uks-national-energy-efficiency-action-plan-and-building-renovation-strategy>

ⁱⁱⁱ Birmingham City Council (BCC), (2010:2). Savings start clocking up in green homes revolution. Available at: <http://birminghamnewsroom.com/2010/09/savings-start-clocking-up-in-green-homes-revolution/>

^{iv} Leach, K. (2010). Awards to project champions from LWM, Encraft & the Council. *Localise West Midlands blog*. Available at: <http://localisewm.wordpress.com/2010/11/09/awards-to-project-champions-from-lwm-encraft-the-council/>

^v Genovese, A., Lenny Koh, S. C., & Acquaye, A. (2013). Energy efficiency retrofitting services supply chains: Evidence about stakeholders and configurations from the Yorkshire and Humber region case. *International Journal of Production Economics*, 144(1), 20-43.

^{vi} Chamberlain Forum, (2012). Green Deal Opportunities for Social Enterprise - a report for Localise West Midlands and iSE. Available at: <http://localisewestmidlands.org.uk/wp-content/uploads/Green-Deal-opportunities-for-social-enterprise-evaluation-report.pdf>