The Green Deal for Social Housing
Get on Board or Get out of the Way?

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The debate over how social landlords should use the government's green deal to improve the energy efficiency of their stock and save tenants money has been rumbling along for over a year now, but has the sector missed the elephant in the room?

In a recent survey carried out by Inside Housing , and with a matter of weeks to go before the 1st October when providers may be knocking on tenants doors, nine of the 17 largest landlords in the country confirmed they had made no firm plans about how to handle the green deal, and just two of that 17 have said they would grant permission for tenants to undertake their own green deal works. Nine landlords had ruled out allowing tenants to commission the work themselves; five remained undecided.

Meanwhile only two social landlords – Gentoo and London & Quadrant – confirmed they have made plans to become a green deal provider. Three others plan to partner with private sector providers and the remaining nine had no firm arrangements in place

Debates over the green deal in the sector have produced a catalogue of questions, few clear answers, and as Nick Duxbury has recently highlighted, there is widespread ignorance and scepticism about what the green deal means, with very few landlords anywhere near taking a stance, and most seeing it as a potential financial liability:

- for their tenants who already face financial burdens of rising rents, benefit cuts, the bedroom tax and general pressure from the tanking economy; and
- for themselves via tenants failing to make the energy savings predicted and rental income becoming their second priority, and lenders potentially negative views on the valuation of stock with a charge on it.

More recently the debate has focused on whether it is ethical for tenants to pay for green deal energy efficiency improvements to landlord's homes. The yes camp are in favour on the basis of having had or planning to have a conversation with tenants and the majority of tenants stating they support and will pay a modest weekly amount in return for savings elsewhere. The no camp opposes it largely on the principle that it transfers the burden of funding energy efficiency measures, and there's no guarantee of savings to be made for tenants.

The Elephant in the Room

The elephant in the room which has largely been missed to date is the link between the green deal and the government's expectations on value for money from the sector. Seems tenuous? Let me explain.

The green deal is one of the government's flagship policies. It is expected to reduce carbon emissions, generate up to 250,000 jobs, and boost the economy. The value of investment is expected to be in the region of £1bn p.a. Competition between green deal providers and financiers is being encouraged and is expected to reduce the capital costs of works and the financing costs for individual households over the coming years.

Affinity Sutton's Future Fit Project, as one of the key pilot projects in the social housing sector, identified a combination of measures which would help drive around a 30-35% reduction in capital costs and a 4% reduction in financing costs, delivering a cost neutral result over a period of years but significant improvements in energy efficiency and reduced carbon emissions for most tenants.

The measures which would help included optimising work packages; aligning energy efficiency improvements with for example cyclical maintenance, annual gas inspections, reactive maintenance, new kitchens and bathrooms, void upgrades etc; managing supply chains to lower capital costs and use alternative lower cost products; developing alternative sources of finance; managing risks; and securing ECO funding to plug the gap.

Housing association global accounts data reveals the sector alone spends over £2bn a year on responsive, planned maintenance and major repairs – including key aspects of green deal eligible items currently undertaken on a routine basis such as new heating systems and insulation which reduce fuel bills and carbon emissions.

Such a significant level of expenditure and large market has significance. The HCA has recently offered detailed practical advice to all organisations across the sector on the roles they could have with the green deal and the implications of them, outlining that, *'With lower costs for residents, a greener housing stock and millions on pounds of private sector investment available, this is going to be a very big deal for social housing'*

Likewise, the Department of Energy and Climate Change (DECC) thinks the social housing sector is well-placed to play a central role in delivering the Green Deal due to a number of factors:

- The sector has experience of carrying out major home improvements, including energy efficiency works.
- By managing significant numbers of properties, it offers economies of scale.
- It has a natural market in their own tenant base, and good local engagement and visibility.

Expectations on Value for Money

The government's and regulator's expectations on value for money (Vfm) across the sector are quite clear, reflected in our previous articles on Vfm. They are expecting pressure to be brought to bear on operating costs to free up investment in new or existing stock, with Vfm being an integral part of regulatory judgements.

Their view on organisations not participating actively or passively with the green deal could be clear cut. Those not taking the opportunity at the very least to harness potential savings in their maintenance and major repairs costs through leveraging green deal financing may not receive a positive judgement on seeking or delivering value for money.

Those in the ethical ‘no’ camp of the debate in engaging with the green deal will probably find their stance will not hold water, e.g. why should tenants (vis-à-vis taxpayers) collectively pay for energy efficiency improvements which benefit an individual household, and why should a tenant have to wait for say another 5 years before their heating system or insulation is upgraded based on some notional lifecycle costing/budget based approach their landlord has taken?

And for those who have embraced affordable rents at 80% of market rent but say nay to energy efficiency improvements paid for by tenants through a golden rule of the amount being no more than what will be saved, there will undoubtedly be questions over potential double standards.

Good Judgement?

Those who take or have taken the plunge into becoming green deal providers will bear risks but, if they make it work, should enhance Vfm through ploughing profits back into their core business, and releasing resources for new homes through green deal funded improvements to their own stock. Likewise those who partner with others and grasp the opportunities of working with local green deal providers.

Best Get out of the Way?

Those who sit on the fence risk more than passively handing private sector and other providers a lucrative gift at just the time when they and their customers need the financial boost themselves.

The elephant in the room may become visible come regulatory judgement day.

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