National Audit Office

Report
by the Comptroller
and Auditor General

Department of Energy & Climate Change

Investigation into the Department of Energy & Climate Change's loans to the Green Deal Finance Company

HC 888 SESSION 2015-16 14 APRIL 2016

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National Audit Office

Department of Energy & Climate Change

Investigation into the Department of Energy & Climate Change's loans to the Green Deal Finance Company

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 13 April 2016

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

8 April 2016

HC 888 | £10.00

Our investigation focuses on the Department of Energy & Climate Change's loans to the Green Deal Finance Company totalling £48.5 million between 2012 and 2015. It now expects around half of the loans to be repaid. The investigation sets out the facts around the Department's decisions in making each of its loans.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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What this investigation is about

1 In 2013 the Department of Energy & Climate Change (DECC, the Department) launched the Green Deal. It intended to increase the energy efficiency of Great Britain's housing stock with the scheme, by enabling consumers to access loans to finance measures that would improve the energy efficiency of their homes. Consumers would repay the loans through their energy bills, with repayments offset by lower bills resulting from lower energy usage.

2 The Department, a group of energy companies and organisations intending to be Green Deal providers established the Green Deal Finance Company (the finance company) in 2012.[1] This not-for-profit company provided finance to Green Deal providers, which agreed loans with consumers. The Department was reliant on the finance company for achieving its aims for the scheme as it wanted the private sector to provide finance for Green Deal loans. Along with private investors, the Department provided a 'stakeholder' loan to the finance company to cover its early costs. The finance company expected to become self-financing once revenue from loan arrangement fees and repayments was sufficient to cover its operating costs. According to the Department, this would happen once the total value of the loans arranged was between £450 million and £500 million.

3 The finance company has incurred large financial losses since the start as a result of low demand for Green Deal loans. It has come to rely on loans from the Department to continue purchasing Green Deal finance plans. In total, the Department has issued loans worth £48.5 million to the finance company. On 23 July 2015 the Secretary of State announced that the Department would not provide any further funding to the finance company. The finance company has not offered to purchase Green Deal finance plans since that date, effectively bringing the Green Deal to a halt. The Department now expects to recover around half the money it has lent to the finance company (**Figure 1** on page 6).

4 We have investigated whether the Department took appropriate actions to protect taxpayers' money, and whether it adequately considered the risk of non-repayment when it made loans to the finance company.

1 Green Deal providers are companies that are responsible for arranging household assessments and the installation and financing required for any subsequent measures.

5 This investigation sets out the facts relating to:

- the Green Deal Finance Company, its governance and costs;
- the Department's £25 million stakeholder loan; and
- the Department's £34 million senior loan (of which the finance company has drawn down £23.5 million).

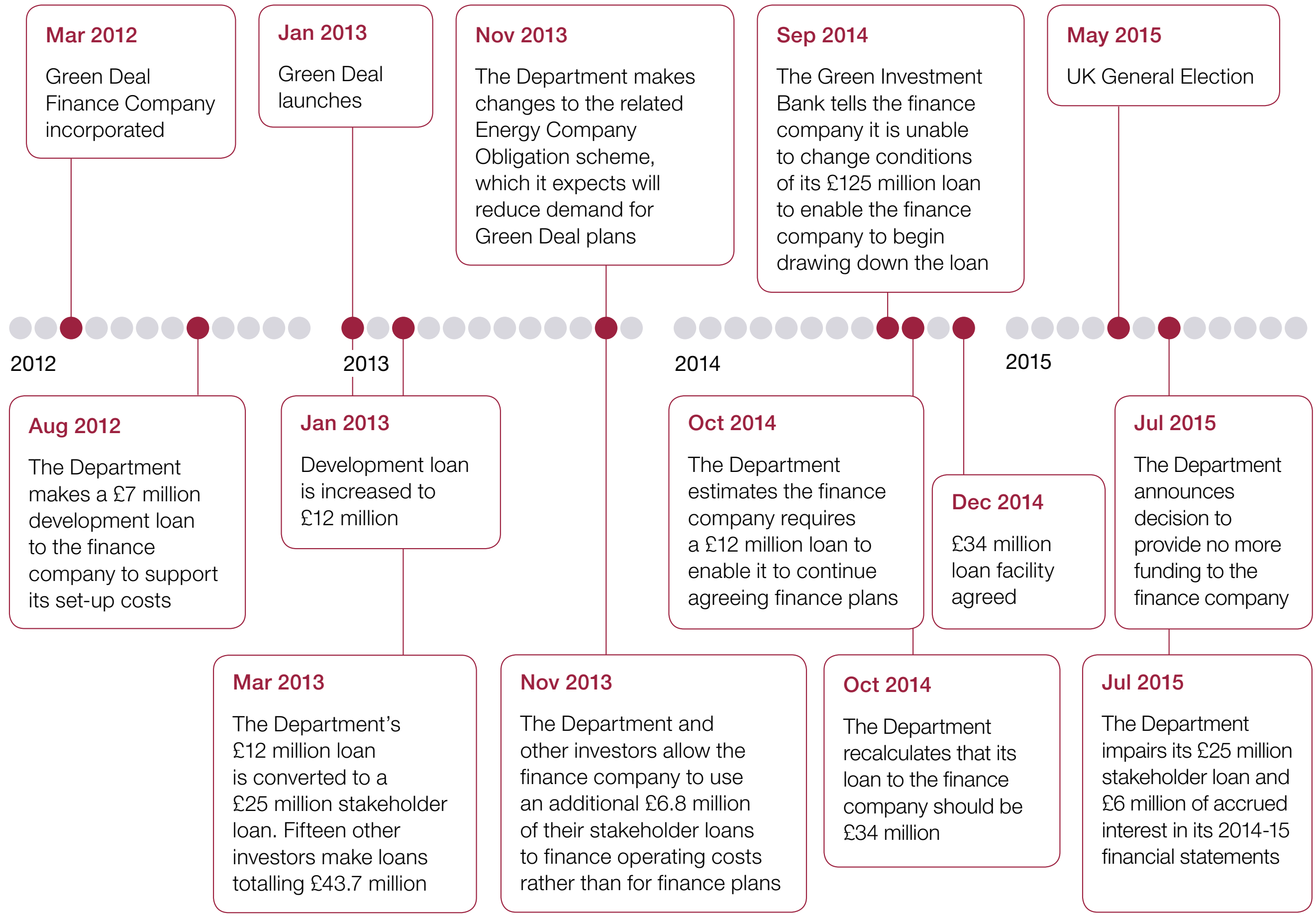
6 In a separate report, we have considered whether the Department achieved value for money from the Green Deal and the complementary Energy Company Obligation scheme.[2]

7 We have reviewed the Department's business cases and ministerial advice which supported its investment decisions, along with the annual reports and accounts of the Department and the finance company. We have also interviewed Department officials and senior figures at the finance company. Our methodology is set out in Appendix One.

2 Comptroller and Auditor General, *Green Deal and Energy Company Obligation*, Session 2015-16, HC 607, National Audit Office, April 2016.

Figure 1

Timeline of the Department's loans to the finance company



Date	Loan	Purpose	Amount	Interest rate	Debt seniority	Impaired?
August 2012	Development loan	Support finance company's set-up costs	£7 million, increased to £12 million in January 2013	Incorporated into stakeholder loan (see below)		
March 2013	Stakeholder loan	Finance Green Deal plans and attract private investment. Private enterprises invest £43.7 million at the same time	£25 million (including £12 million development loan)	14.0%	Junior to other creditors – stakeholder investors would be the last to be repaid in the event of insolvency	Yes
December 2014	Senior loan	Enable the finance company to continue purchasing Green Deal loans until just past the 2015 General Election	£34 million (the finance company has drawn down £23.5 million)	5.7%	Senior to all other investors – the Department would be the first to be repaid in event of insolvency	No – to be confirmed in course of our 2015-16 financial audit

Source: National Audit Office analysis

Summary

Key findings

8 **The Department of Energy & Climate Change (the Department) loaned £48.5 million to the Green Deal Finance Company (the finance company) between 2012 and 2015 but only expects to be repaid the £23.5 million of this that it invested as senior debt.** The Department made two loans to the finance company. In March 2013 it agreed a stakeholder loan worth £25 million. In December 2014 it agreed a senior loan worth up to £34 million. In July 2015 the Department decided not to provide any further funding to the finance company, bringing the Green Deal finance scheme to a halt. While it retains the legal right to the stakeholder loan, the Department has impaired the £25 million loaned, plus £6 million of interest that has accrued on it. The finance company has drawn down £23.5 million of the senior loan. The Department still expects to recover this in full as it is secured against the finance company's loan book and will be repaid before other investors' loans to the finance company are repaid (Figure 1, paragraphs 2.1 to 2.3, 2.12, 3.1 to 3.5 and 3.10).

£25 million stakeholder loan

9 **The Department made its £25 million stakeholder loan to provide greater confidence to potential private sector investors in the finance company.** The Department originally wanted the private sector to provide the finance required for the finance company to reach operational sustainability. However, market testing identified that government support was required to achieve a low interest rate on Green Deal loans for consumers, a crucial factor for the success of the scheme, and to build investor confidence in the new scheme. The Department provided a stakeholder loan, alongside £43.7 million from private investors (of which £33.7 million was issued at the same level of seniority, and £10 million was senior to the Department's investment). The Department issued the stakeholder loan in the hope that it would allow the company to attract subsequent investment. The Department and the private investors charged the finance company 14% interest on their stakeholder loans to compensate for the risk of holding junior debt, which would be the last to be repaid in the event of insolvency (paragraphs 2.2 to 2.5, Figure 4).

10 **The Department based its stakeholder loan on forecasts of significant consumer demand for Green Deal loans.** The Department's business case for its original £25 million investment cited the finance company's business plan base case forecast that it would purchase approximately £300 million-worth of loans a year. This level of demand for Green Deal loans would have enabled it to begin repaying the Department's stakeholder loan within two years. The finance company has told us that its base case was based on projections that its investors and the Department had prepared. The Department's forecast was included in its 2012 impact assessment for the Green Deal. But the Department did not intend this to be a robust forecast of demand for Green Deal finance, given the innovative nature of the scheme (paragraph 2.6 to 2.8, Figure 5).

11 **Demand for Green Deal finance plans was lower than the Department's forecast from the outset, which meant the finance company could not cover its operating costs with arrangement fees and loan repayments.** In November 2013 the Department and the other founder investors allowed the finance company to allocate an additional £6.8 million of the stakeholder loans to fund its operating costs. The finance company's loan book was worth just £17 million at the end of 2014, compared with the Department's impact assessment prediction of £695 million. We report in our value-for-money report *Green Deal and Energy Company Obligation* on some of the reasons why demand for Green Deal loans was lower than the Department expected (paragraph 2.9, Figure 5).[3]

12 **Low demand for Green Deal loans meant the finance company was unable to access a loan from UK Green Investment Bank plc (GIB).** GIB is a government-created provider of finance to green projects, which operates on commercial terms. The finance company had conditionally agreed a loan facility worth £125 million with GIB. Using more of the stakeholder loans to fund operating costs meant the finance company had broken a condition of being able to draw down GIB's loan. At the time, GIB felt it was unable to renegotiate the terms of the loan without seeing a new business plan. In September 2014 the finance company asked GIB to extend the facility, as it was due to expire at the end of that year. GIB again felt unable to meet the finance company's request as an extension would not be within GIB's mandate to provide finance on commercial terms (paragraph 2.10).

3 Comptroller & Auditor General, *Green Deal and Energy Company Obligation*, Session 2015-16, HC 607, National Audit Office, April 2016.

£34 million senior loan

13 **In December 2014, the Department provided a senior loan facility worth up to £34 million.** GIB's decision not to extend its loan facility meant the finance company was close to being unable to commit to buying new finance plans, leading it to approach the Department for additional funding. The Department initially estimated the finance company needed a loan worth £12 million to reach sustainability. This was based on new forecasts for uptake of Green Deal plans and an assumption that the finance company could reduce its operating costs by £2 million a year. The finance company, however, requested around £40 million. It based this on demand for Green Deal plans at the time being higher than the Department thought, and because it could not reduce operating costs by £2 million while maintaining its activities. The Department accepted the finance company's position and settled for the finance company reducing operating costs by around £0.3 million per year. Four days after its original proposal, the Department recommended to the Secretary of State to approve an increased loan facility of up to £34 million. Its loan conditions included the right to stop making the facility available before the finance company had drawn down all the money (paragraphs 3.1 to 3.4).

14 **The Department understood that there were a number of risks which meant the second loan could add to taxpayers' losses.** It was concerned that the increased demand for Green Deal plans was temporary as a result of its Green Deal Home Improvement Fund scheme, which offered households subsidies for certain measures. But it decided it was still worth making the loan due to the reputational risk of Green Deal finance being unavailable, even for a short period, and the strategic importance of keeping the Green Deal framework up-and-running to attract more investment in the future. The Department decided a £34 million loan was necessary to fund demand for Green Deal finance until just after the 2015 General Election. It hoped this would give the new government the chance to take a decision on the future of the Green Deal, at which point potential private investors would obtain greater clarity on the scheme's prospects (paragraph 3.5).

Finance company costs

15 **The finance company's operating costs were based on the forecasts of significant demand for Green Deal plans.** It aimed to recruit staff of a calibre appropriate to manage a loan book worth hundreds of millions of pounds: it paid its 13 members of staff £1.3 million in 2014, including a £400,000 salary for its chief executive. It also paid its IT provider £1.5 million per year as part of a fixed-cost contract, as it expected to require a system that would underpin 3.5 million finance plans. In total, the finance company accumulated operating losses of £45.5 million by December 2014. It had purchased or agreed to purchase Green Deal finance plans worth £23.7 million by that date (paragraphs 1.7, 1.8 and Figure 3).

16 **The Department was able to monitor the finance company's performance and costs throughout.** It had an observer role on the finance company's board and attended investor meetings. It received ongoing monitoring information on the finance company's performance, which included monthly information on the number of loan applications received each week and the average Green Deal plan size. The monitoring information also included the amount of loan finance which the finance company had drawn down, and a prediction of how long the loan would continue to support the finance company at the current rate of drawdown (paragraphs 1.4 to 1.6).

Part One

About the Green Deal Finance Company

1.1 The Department of Energy & Climate Change (the Department) launched the Green Deal in January 2013. It wanted the scheme to improve the energy efficiency of Great Britain's housing stock by providing consumers with loans to pay for energy-saving measures in their home. Consumers would repay the loans through their energy bills, with the cash value of energy savings from the measure offsetting the repayments. The Department expected businesses to become Green Deal providers, which would arrange the installation and financing of any measure recommended following a Green Deal assessment.

1.2 The Department, energy suppliers and an industry group of energy companies and organisations intending to be Green Deal providers established the Green Deal Finance Company (the finance company) in 2012. They incorporated the finance company as a not-for-distributable-profit company to set up, finance and administer Green Deal loan plans. The finance company purchased the right to Green Deal loan receivables from providers, and then collected repayments from consumers' energy suppliers (**Figure 2** overleaf).

1.3 The finance company is an example of a financial institution that helps government achieve its objectives. We have previously reported how the number of such financial institutions has increased over the past decade, as the government has increasingly established separate companies to conduct financial transactions and perform related activities.[4]

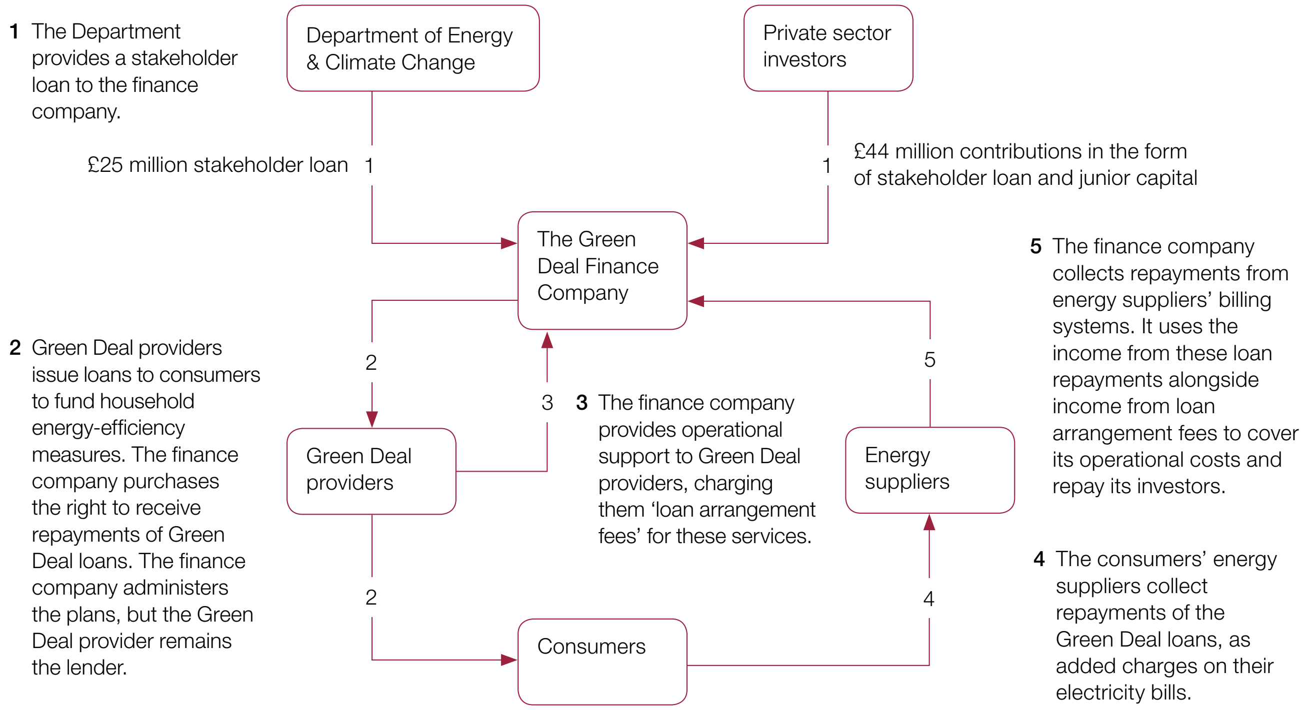
Governance

1.4 The finance company has a board of directors which oversees its operations. Its founding investors appointed two of the board's non-executive directors. Investors have the right to appoint a majority of board members if they are dissatisfied with the strategy being pursued by the board. The finance company presents its progress at investor meetings on a quarterly basis.

4 Comptroller and Auditor General, *Financial institutions landscape*, Session 2015-16, HC 418, National Audit Office, September 2015.

Figure 2

Initial finance arrangements of the Green Deal Finance Company



Source: National Audit Office analysis

1.5 The finance company's governance arrangements meant the Department had the ability to monitor its financial position from the outset:

- The Department had an observer seat on the finance company's board. The Department's business case states that this role was to be fulfilled by a senior official from its Green Deal programme team. Initially this was so that the Department could influence the finance company to support the objectives of the Green Deal scheme.

- The Department had approval rights over the finance company's budget, and the right to reports and analyses on operating costs and performance.

- The finance company arranged investor meetings to enable the Department and other investors to question its board. Because the company had a complex set of financing arrangements with a large number of covenants, it often had to seek formal consents from its investors.

1.6 The Department's business case for investing in the finance company stated that its oversight would focus on events and performance that would affect departmental investments. It stated that this was because the finance company is an independent body which it does not control. The Department's ongoing monitoring information on the finance company's performance included monthly information on the number of loan applications which the finance company received each week and the average Green Deal plan size. It also included the amount of loan finance which the finance company had drawn down, and a prediction of how long this would continue to support the finance company at the current rate of drawdown.

Costs

1.7 The finance company based its operating costs on the level of demand for Green Deal plans its founder investors, including the Department, initially expected. The Department's 2012 impact assessment for the Green Deal modelled a central scenario that demand for the Green Deal would create a need for £695 million of finance in the first two years. Accordingly, the finance company's contract with its IT provider was drawn up on the basis that its systems would need to support up to 3.5 million Green Deal plans. The contract meant that it paid the provider of the pay-as-you-save IT system a minimum of £1.5 million annually. The finance company also wanted to recruit high-calibre staff able to launch a new financing business and administer a potentially large loan book. In 2014 it paid its 13 employees £1.3 million, including an annual salary of £400,000 for its chief executive. However, because there were significant uncertainties in its prospects, it hired many people on short-term contracts or as interim staff. In 2014 it paid contractors £1.5 million, with interim staff rates ranging from £450 to £1,250 per day.

1.8 In total, the finance company had accumulated operating losses of £45.5 million by December 2014 including its set-up costs (**Figure 3** overleaf). This was because demand for Green Deal loans fell short of initial expectations. At the same point, it had arranged, or agreed to arrange, Green Deal loans worth £23.7 million.

Figure 3

Green Deal Finance Company financial performance

The Green Deal Finance Company made operating losses totalling £45.5 million to the end of 2014

	1 March 2012 to 30 June 2013 (16 months) (£000s)	1 July 2013 to 31 December 2013 (6 months) (£000s)	1 January 2014 to 31 December 2014 (12 months) (£000s)
Income			
Fees for arranging Green Deal loans	31	143	594
Interest received on Green Deal loans		3	396
Interest on money in bank	16	30	32
Expenditure			
Administrative costs	-20,470	-4,737	-7,346
Interest payable to investors including the Department	-2,430	-4,012	-7,793
Operating loss			
Operating loss	-22,853	-8,573	-14,117
Breakdown of administrative costs			
Consultancy set-up	-12,200		
Legal set-up	-4,700		
Staff costs	-711	-540	-1,313
IT contract	-667	-800	-1,600
Contractor costs			-1,500
Other	-2,192	-3,397	-2,933

Note

1 The Green Deal Finance Company's financial statements for 2015 were not available at the time of our investigation.

Source: The Green Deal Finance Company Limited: Financial Statements and Green Deal Finance Company business plan, March 2015

Part Two

The Department's £25 million 'stakeholder' loan

2.1 The Department of Energy & Climate Change's (the Department's) first loan to the Green Deal Finance Company (the finance company) was a £25 million 'stakeholder' loan. This was partly for set-up costs prior to the Green Deal going live. It issued a £7 million development loan to the finance company in August 2012 and increased this to £12 million in January 2013. This enabled the finance company to complete set-up costs and negotiate private sector finance for Green Deal loans.

2.2 The Department had originally intended that Green Deal loans would be privately financed. However, its market testing identified that government support would be required due to a high degree of uncertainty given the novel loans system. It consequently converted its development loan into a £25 million 'stakeholder' loan in March 2013. The Department's intention was for its stakeholder loan to attract private sector finance at a lower cost, allowing for loans to be provided to customers with a lower interest rate.

2.3 The Department's £25 million stakeholder loan was part of the most junior set of investments in the finance company, worth £58.7 million in total, which would be the first set of loans lost if the finance company became insolvent. Providing this junior capital would reduce the financial risk for other subsequent investors. The Department's stakeholder loan accrued interest at 14%, in order to compensate for the risk it would not be repaid. The finance company could only draw down two-thirds of the stakeholder loans initially. It could then draw down the final third, worth £18 million in total, once demand had reached a level where it needed more funding to purchase new Green Deal plans.

2.4 At the same time as its stakeholder loan, the Department provided the finance company with certain other financial facilities, which it has not called upon. It agreed to provide the finance company with a 'Contingent Capital Facility' worth £30 million and 'Junior Capital Bridge' worth £20 million. These investments would only have been required if demand for Green Deal loans reached a certain level.

2.5 The finance company attracted £43.7 million of private investment at the time the Department issued its stakeholder loan (**Figure 4** overleaf). Of this, a majority (£33.7 million) was provided on an equal footing with the Department's investment, as stakeholder loans. The finance company also secured agreement from UK Green Investment Bank plc (GIB) for a £125 million loan to fund future Green Deal plans. GIB is a government-created provider of finance to green projects, which operates on commercial terms.

Figure 4
Initial investments in the Green Deal Finance Company

List of investors (alphabetical order)

British Gas
Carillion
Cavity Insulation Guarantee Agency
CertiNergy
Department of Energy & Climate Change
EDF Energy
E·ON
Gentoo
Instagroup
Kingfisher
Newcastle City Council
Npower
PWC
ScottishPower
SSE
ThermaBead
UK Green Investment Bank plc

Capital structure of investments

Tranche	Amount	Notes
Senior debt	£125 million (none drawn)	This was the most senior tranche of debt. The facility was originally agreed with GIB, who ensured that the loan could only be drawn down subject to certain conditions being met. As these conditions were never met, the loan was never drawn down.
Junior capital	£10 million	This tranche of debt was subordinate to the senior debt, but senior to the stakeholder loan.
Stakeholder loan	£58.7 million	This tranche was subordinate to each of the other tranches of debt. The capital was provided by the sixteen organisations listed above excluding GIB. The £58.7 million includes the Department's £25 million loan.

Source: Department of Energy & Climate Change

Demand forecasts

2.6 The Department's case for issuing its stakeholder loan relied upon there being sufficient demand for Green Deal loans. In its business case for its stakeholder loan, the Department forecast that the finance company would need between £450 million and £500 million of Green Deal loans (depending on the average consumer loan size) before it would generate sufficient income from loan fees to cover its operating costs. The Department predicted that the finance company would start repaying the stakeholder loan when the value of Green Deal loans reached approximately £600 million.

2.7 The Department's business case for the loan asserted that there was no realistic risk of insolvency and the risk that the stakeholder loan would need to be written off would only materialise in an "extreme downside scenario".[5] It cited the finance company's business plan, which forecast a base case that it would purchase plans worth £300 million a year. According to the Department's figures, this would have enabled the finance company to begin repaying its stakeholder loan after two years.

2.8 However, the finance company told us that its base case was based on projections that its founder investors had prepared, including modelling in the Department's 2012 impact assessment for the Green Deal. The Department had not originally intended its impact assessment to be a robust forecast of demand for Green Deal finance, given the innovative nature of the scheme.

Second tranche of stakeholder loan

2.9 From the outset, demand for Green Deal plans was significantly lower than the Department's projections and the finance company's business plan base case. This meant the finance company was not receiving income from loan arrangement fees that it had expected to meet its operating costs. In November 2013 it requested that the Department and the other investors allow it to use some of the second tranche of the stakeholder loans to finance its operating costs. The investors allowed the finance company to use £6.8 million of the second tranche to fund its operating costs in 2014 and 2015, rather than the original purpose of issuing finance plans.

5 Full Business Case for DECC investments into The Green Deal Finance Company, Department of Energy & Climate Change, March 2013.

2.10 By allocating £6.8 million more of the stakeholder loans for operating costs than it had previously planned, the finance company had broken a condition of the loan from GIB. GIB had agreed to provide the finance company with a loan facility worth up to £125 million by December 2014. But this relied on it using £46.6 million of its stakeholder loans for finance plans, to ensure there was sufficient security from the loan book. The finance company had approached GIB to renegotiate the facility conditions. GIB stated that it could only renegotiate its loan if the finance company submitted a new business plan that demonstrated how it would repay its loan in light of the low demand for Green Deal plans.

2.11 Around the same time, the Department was considering reducing suppliers' obligations through the Energy Company Obligation (ECO) scheme (see our complementary value-for-money report on the Green Deal and ECO).[6] These changes made cheaper measures eligible towards suppliers' obligations, meaning it became less likely that suppliers would install the expensive measures which were likely to require Green Deal finance. The Department recognised that this created uncertainty over future demand for Green Deal finance and the likelihood of the finance company becoming self-sustaining.

Impairment

2.12 The Department has fully impaired the £25 million stakeholder loan and £5.6 million of interest accrued on it, because it does not expect to recover any of this loan. It retains the legal right to this loan. The Department may recover some or all of the loan in future if the finance company can derive value from selling its pay-as-you-save system.

6 Comptroller and Auditor General, *Green Deal and Energy Company Obligation*, Session 2015-16, HC 607, National Audit Office, April 2016.

Part Three

The Department's £34 million senior loan

Senior loan, December 2014

3.1 In December 2014 the Department of Energy & Climate Change (the Department) made a second loan of £34 million to enable the Green Deal Finance Company (the finance company) to continue purchasing Green Deal finance plans. This was required because UK Green Investment Bank plc (GIB) had told the finance company it was unable to amend its loan terms and extend the facility beyond December 2014. The finance company asked GIB to extend the expiry date of the loan facility, suggesting that any finance provided by GIB could be secured against the finance company's loan book. GIB declined, as the finance company's business plan did not meet its requirements for granting extensions, and extending the facility would not be within its mandate to provide finance on commercial terms.

3.2 GIB's potential investment transferred to the Department, meaning it took on the same conditions: it was senior finance, taking priority over other investors' loans, and it was secured against the finance company's consumer loans. The Department initially requested agreement from the Secretary of State on 6 October 2014 to loan up to £12 million to the finance company. The Department had estimated this would be sufficient to provide the finance company with a viable path to generate revenue that covered its operating costs. Beyond that point, it expected the finance company to seek, and have an increased chance of obtaining, third-party investment to purchase further plans. The Department based this calculation on the assumption that the finance company would receive 190 loan applications per week and that 50% of these would result in Green Deal loans being arranged. It initially planned to offer the loan on the condition that the finance company reduce its operating costs from £5 million to £3 million per year.

3.3 Four days later, the Department revised its advice to the Secretary of State, increasing the proposed loan to £24 million, with scope to negotiate up to £34 million if the finance company required. It was now concerned that if there was a lack of long-term policy certainty, other investors would not provide finance to the finance company even if it had reached operational sustainability. It intended the additional loan amount would give the finance company time to produce a new business plan and robust demand forecasts to give investors confidence. Its loan included the right to stop making the facility available before the finance company had drawn down all the money.

3.4 The finance company estimated that it required a loan worth £40 million. It based this on updated scenarios of demand for Green Deal plans, which reflected the fact that the finance company was receiving close to 400 loan applications per week (rather than the Department’s assumption of 190 a week). These scenarios implied that the £12 million loan would run out by June 2015, at which point there would not be sufficient long-term policy certainty for new investment. The Department suspected that demand was temporarily heightened due to extra funding coming into the market from its Green Deal Home Improvement Fund.[7] However, its data were not sufficiently detailed to confirm this. The finance company also provided evidence that it had already reviewed its operating costs. It expected minimum operating costs of £5.5 million in 2015, reaching a steady state of £5 million from 2016 onwards. The Department settled on a £0.3 million reduction in operating costs as a condition of the loan, rather than the £2 million reduction it had previously planned.

3.5 The Department acknowledged there were a number of risks which could mean that further investment would add to taxpayers’ losses rather than helping the finance company achieve operational sustainability. It considered it worthwhile making the loan due to the reputational risk of Green Deal finance becoming unavailable, even for a short period. The Department set the size of the loan so that Green Deal finance would remain available until just past the 2015 General Election, providing the new government with a chance to take a decision on the future of the policy.

HM Treasury approval

3.6 The Department relied on section 1(1) of the Infrastructure (Financial Assistance) Act 2012 to make the senior loan. This required the express consent of HM Treasury. HM Treasury expressed its disappointment at the scale of government support needed, but that it was content to agree it given the potential strategic importance of the ‘pay as you save’ model, of which Green Deal finance was an example. Approval was subject to conditions, including:

- the funding had to be taken out of the Department’s budget for the Green Deal Home Improvement Fund;
- the Department’s accounting officer had to be content that the loan was compliant with Treasury guidance on safeguarding value for money; and
- the finance company had to agree to significantly reduce its operating costs.

7 This was a scheme it introduced to offset the reduced impact on CO_2 emissions of its changes to the Energy Company Obligation (ECO). This scheme subsidised certain measures, such as boilers and solid wall insulation. We provide more information on this scheme in our report *Green Deal and Energy Company Obligation*.

3.7 HM Treasury required the Department to provide it with monthly updates on the finance company's performance. The Department's updates included the amount of the loan the finance company had drawn down and data on the rate of loan applications. HM Treasury also held regular discussions with officials from the Department to discuss the finance company's progress and related issues.

Withdrawal of support

3.8 On 23 July 2015 the Department announced that it would not allow the finance company to draw down any more of its senior loan. The Department withdrew its support as the new government had signalled its intention to focus government funding for energy efficiency on the fuel-poor and find new incentives for action from the able-to-pay sector. It concluded that access to loans had not been sufficient to create consumer demand for the Green Deal. As at 31 December 2014, the finance company had issued loans worth £17 million, less than 3% of the £695 million which the Department had forecast in the central scenario of its 2012 impact assessment (**Figure 5** overleaf). Our value-for-money report assesses the reasons why demand for Green Deal plans did not meet the Department's expectations.[8]

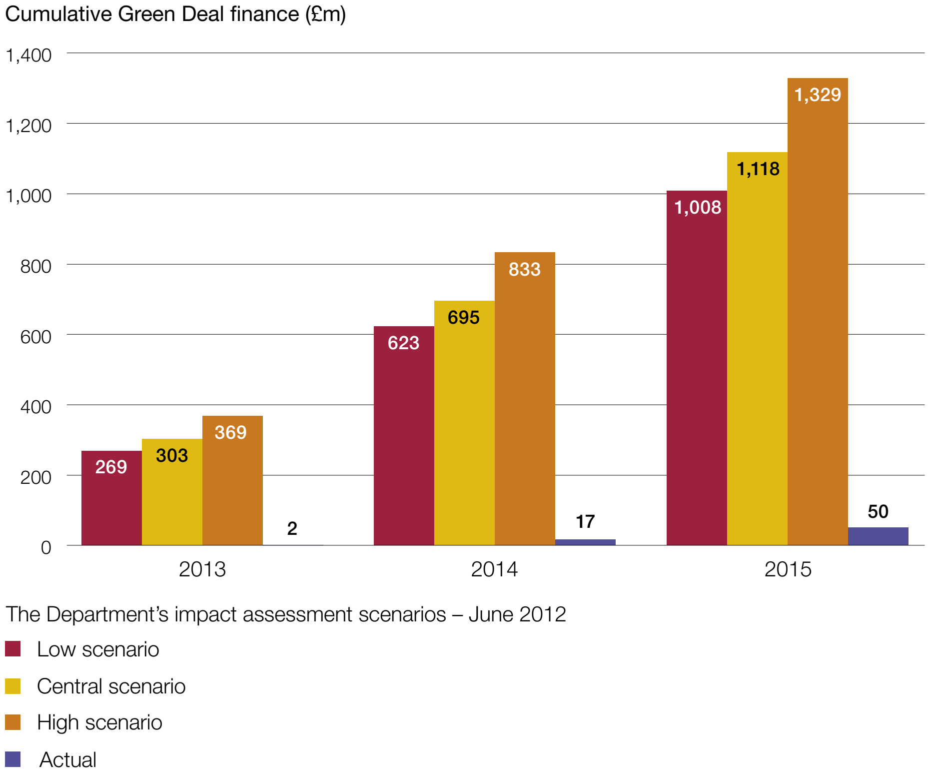
3.9 At the point at which the Department withdrew its support, the finance company had drawn down all of the Department's £25 million stakeholder loan and £15.5 million of the £34 million senior loan. The Department allowed the finance company to draw down a further £8 million of the Department's senior loan between July and December 2015 (in line with the loan conditions), so it could purchase loans from Green Deal providers for loan applications which had already been submitted. This means the company has drawn down a total of £48.5 million financing from the Department. The Department does not plan to enable the finance company to draw down any further funding.

3.10 The Department has not impaired the principal or interest on the £23.5 million senior debt the finance company has drawn down because the debt is secured against consumer loans. The Department expects the finance company to repay the loan and interest over time as consumers repay their loans. This will be subject to ongoing review as part of our annual financial audit of the Department's financial statements.

8 Comptroller and Auditor General, *Green Deal and Energy Company Obligation*, Session 2015-16, HC 607, National Audit Office, April 2016.

Figure 5
The Department's projected volume of Green Deal loans vs actual performance

Demand for Green Deal loans has been lower than the Department's projections



Source: The Department of Energy & Climate Change, *Final stage impact assessment for the Green Deal and Energy Company Obligation*, June 2012, Green Deal Finance Company financial statements December 2014, Green Deal Finance Company submission to the Energy and Climate Change Committee, October 2015

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into the Department of Energy & Climate Change's (the Department's) procedures for protecting taxpayers' money, including whether it considered the risk of non-repayment when it made loans to the Green Deal Finance Company (the finance company) and allowed it to draw down the funds.

Methods

2 We interviewed officials from the Department. We also spoke to officials from HM Treasury, which approved the Department's senior loan in November 2014. We reviewed the Department's business cases and ministerial briefing notes that accompanied each of the loans. We also reviewed minutes of departmental meetings where the loans were discussed.

3 We reviewed information obtained during the course of our audit of the Department's 2014-15 financial statements, during which the Department made the decision to impair its stakeholder loan to the finance company.

4 We interviewed senior figures from the finance company, who provided information on the activities and achievements of the company. We have also reviewed the finance company's financial statements and business plans.

5 We consulted stakeholders to obtain their perspective on the Green Deal, including investors in the finance company; energy suppliers and consumer support organisations.

6 They provided information which helped to inform the course of our investigation, as well as our complementary value-for-money report on the Green Deal and Energy Company Obligation schemes.

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National Audit Office

Design and Production by NAO Communications
DP Ref: 11077-001

£10.00

ISBN 978-1-78604-043-5

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